PACIFIC PREMIER BANCORP INC
Form 10-Q
August 08, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
(Mark One)
(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______
Commission File Number 0-22193

(Exact name of registrant as specified in its charter)

| DELAWARE | 33-0743196 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S Employer Identification No.) |

17901 VON KARMAN AVENUE, SUITE 1200, IRVINE, CALIFORNIA 92614
(Address of principal executive offices and zip code)

(949) 864-8000
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [ X ] No [_]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [_]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", “accelerated filer”, “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act).

| Large accelerated filer | [X] | Accelerated filer | [ ] | Non-accelerated filer (Do not check if a smaller reporting company) | [ ] | Smaller reporting company | [ ] | Emerging growth company | [ ] |
|---|---|---|---|---|---|---|---|---|---|

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes [ ] No [X]

The number of shares outstanding of the registrant's common stock as of August 7, 2018 was 62,387,594.

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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
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FOR THE QUARTER ENDED JUNE 30, 2018


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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share data)
(unaudited)

| ASSETS | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Cash and due from banks | $30,025 | $39,606 |
| Interest-bearing deposits with financial institutions | 101,443 | 157,558 |
| Cash and cash equivalents | 131,468 | 197,164 |
| Interest-bearing time deposits with financial institutions | 6,633 | 6,633 |
| Investments held-to-maturity, at amortized cost (fair value of $31,127 as of June 30, 2018 and $18,082 as of December 31, 2017, respectively) | 31,965 | 18,291 |
| Investment securities available-for-sale, at fair value | 874,700 | 787,429 |
| FHLB, FRB and other stock, at cost | 82,666 | 65,881 |
| Loans held for sale, at lower of cost or fair value | 13,879 | 23,426 |
| Loans held for investment | 6,277,586 | 6,196,224 |
| Allowance for loan losses | (31,747) | (28,936) |
| Loans held for investment, net | 6,245,839 | 6,167,288 |
| Accrued interest receivable | 27,420 | 27,060 |
| Other real estate owned | 220 | 326 |
| Premises and equipment | 54,049 | 53,155 |
| Deferred income taxes, net | 17,183 | 13,265 |
| Bank owned life insurance | 76,937 | 75,976 |
| Intangible assets | 37,938 | 43,014 |
| Goodwill | 494,672 | 493,329 |
| Other assets | 62,562 | 52,264 |
| Total assets | $8,158,131 | $8,024,501 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Deposit accounts: | | |
| Noninterest-bearing checking | $2,349,464 | $2,226,876 |
| Interest-bearing: | | |
| Checking | 342,986 | 365,193 |
| Money market/savings | 2,446,849 | 2,409,007 |
| Retail certificates of deposit | 823,425 | 714,751 |
| Wholesale/brokered certificates of deposit | 345,626 | 370,059 |
| Total interest-bearing | 3,958,886 | 3,859,010 |
| Total deposits | 6,308,350 | 6,085,886 |
| FHLB advances and other borrowings | 379,100 | 536,287 |
| Subordinated debentures | 105,253 | 105,123 |
| Accrued expenses and other liabilities | 76,903 | 55,209 |
| Total liabilities | 6,869,606 | 6,782,505 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, $.01 par value; 1,000,000 authorized; none issued and outstanding | — | — |
| Common stock, $.01 par value; 100,000,000 shares authorized; 46,629,118 shares at June 30, 2018 and 46,245,050 shares at December 31, 2017 issued and outstanding | 459 | 458 |
| Additional paid-in capital | 1,067,907 | 1,063,974 |

| | | |
|---|---|---|
| Retained earnings | 232,372 | 177,149 |
| Accumulated other comprehensive (loss) income | (12,213 ) | 415 |
| Total stockholders' equity | 1,288,525 | 1,241,996 |
| Total liabilities and stockholders' equity | $ 8,158,131 | $ 8,024,501 |

Accompanying notes are an integral part of these consolidated financial statements.

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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except share data)
(unaudited)

| | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | June 30, 2018 | March 31, 2018 | June 30, 2017 | June 30, 2018 | 2017 |
| INTEREST INCOME | | | | | |
| Loans | $85,625 | $ 84,173 | $ 63,554 | $169,798 | $ 105,990 |
| Investment securities and other interest-earning assets | 7,074 | 6,654 | 5,179 | 13,728 | 8,170 |
| Total interest income | 92,699 | 90,827 | 68,733 | 183,526 | 114,160 |
| INTEREST EXPENSE | | | | | |
| Deposits | 7,756 | 5,914 | 3,081 | 13,670 | 5,216 |
| FHLB advances and other borrowings | 2,125 | 2,023 | 1,175 | 4,148 | 1,779 |
| Subordinated debentures | 1,647 | 1,609 | 1,139 | 3,256 | 2,124 |
| Total interest expense | 11,528 | 9,546 | 5,395 | 21,074 | 9,119 |
| Net interest income before provision for credit losses | 81,171 | 81,281 | 63,338 | 162,452 | 105,041 |
| Provision for credit losses | 1,761 | 2,253 | 1,945 | 4,014 | 4,190 |
| Net interest income after provision for credit losses | 79,410 | 79,028 | 61,393 | 158,438 | 100,851 |
| NONINTEREST INCOME | | | | | |
| Loan servicing fees | 292 | 345 | 143 | 637 | 365 |
| Service charges on deposit accounts | 1,057 | 1,150 | 866 | 2,207 | 1,207 |
| Other service fee income | 169 | 146 | 495 | 315 | 874 |
| Debit card interchange fee income | 1,090 | 1,036 | 679 | 2,126 | 746 |
| Earnings on bank-owned life insurance | 617 | 611 | 689 | 1,228 | 1,025 |
| Net gain from sales of loans | 3,843 | 2,958 | 2,887 | 6,801 | 5,698 |
| Net gain from sales of investment securities | 330 | 6 | 2,093 | 336 | 2,093 |
| Other income | 753 | 1,414 | 907 | 2,167 | 1,434 |
| Total noninterest income | 8,151 | 7,666 | 8,759 | 15,817 | 13,442 |
| NONINTEREST EXPENSE | | | | | |
| Compensation and benefits | 29,274 | 28,873 | 21,623 | 58,147 | 36,510 |
| Premises and occupancy | 5,045 | 4,781 | 3,733 | 9,826 | 6,186 |
| Data processing | 2,747 | 2,702 | 2,439 | 5,449 | 3,626 |
| Other real estate owned operations, net | 2 | 1 | 44 | 3 | 56 |
| FDIC insurance premiums | 581 | 611 | 818 | 1,192 | 1,273 |
| Legal, audit and professional expense | 1,816 | 1,839 | 1,178 | 3,655 | 2,035 |
| Marketing expense | 1,352 | 1,530 | 1,006 | 2,882 | 1,824 |
| Office, telecommunications and postage expense | 1,115 | 1,080 | 922 | 2,195 | 1,355 |
| Loan expense | 594 | 591 | 1,068 | 1,185 | 1,536 |
| Deposit expense | 2,302 | 1,676 | 1,669 | 3,978 | 3,113 |
| Merger-related expense | 943 | 936 | 10,117 | 1,879 | 15,063 |
| CDI amortization | 1,996 | 2,274 | 1,761 | 4,270 | 2,272 |
| Other expense | 2,309 | 2,914 | 2,077 | 5,223 | 3,610 |
| Total noninterest expense | 50,076 | 49,808 | 48,455 | 99,884 | 78,459 |
| Net income before income taxes | 37,485 | 36,886 | 21,697 | 74,371 | 35,834 |
| Income tax | 10,182 | 8,884 | 7,521 | 19,066 | 12,137 |
| Net Income | $27,303 | $ 28,002 | $ 14,176 | $55,305 | $ 23,697 |
| EARNINGS PER SHARE | | | | | |
| Basic | $0.59 | $ 0.61 | $ 0.36 | $1.20 | $ 0.71 |

| | | | | | |
|---|---|---|---|---|---|
| Diluted | 0.58 | 0.60 | 0.35 | 1.18 | 0.69 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | | | | |
| Basic | 46,053,077 | 45,893,496 | 39,586,524 | 45,973,727 | 33,591,040 |
| Diluted | 46,702,968 | 46,652,059 | 40,267,220 | 46,678,123 | 34,267,215 |

Accompanying notes are an integral part of these consolidated financial statements.

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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)
(unaudited)

| | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | June 30, | March 31, | June 30, | June 30, | |
| | 2018 | 2018 | 2017 | 2018 | 2017 |
| Net income | $27,303 | $28,002 | $14,176 | $55,305 | $23,697 |
| Other comprehensive income, net of tax: | | | | | |
| Unrealized holding (loss)/gain on securities arising during the period, net of income taxes (1) | (3,122) | (9,343) | 6,336 | (12,465) | 7,349 |
| Reclassification adjustment for net (gains) losses on sale of securities included in net income, net of income taxes (2) | (240) | (5) | (1,368) | (245) | (1,368) |
| Other comprehensive (loss) income, net of tax | (3,362) | (9,348) | 4,968 | (12,710) | 5,981 |
| Comprehensive income, net of tax | $23,941 | $18,654 | $19,144 | $42,595 | $29,678 |

(1) Income tax (benefit) expense on the unrealized (loss)/gain on securities was $(1.3) million for the three months ended June 30, 2018, $(3.9) million for the three months ended March 31, 2018, $4.3 million for the three months ended June 30, 2017, $(5.2) million for the six months ended June 30, 2018 and $5.0 million for the six months ended June 30, 2017.

(2) Income tax expense (benefit) on the reclassification adjustment for net (gains) losses on sale of securities included in net income was $90,000 for the three months ended June 30, 2018, $1,000 for the three months ended March 31, 2018, $725,000 for the three months ended June 30, 2017, $91,000 for the six months ended June 30, 2018 and $725,000 for the six months ended June 30, 2017.

Accompanying notes are an integral part of these consolidated financial statements.

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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(dollars in thousands)
(unaudited)

| | Common Stock Shares | Common Stock | Additional Paid-in Capital | Accumulated Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2017 | 46,245,050 | $ 458 | $ 1,063,974 | $ 177,149 | $ 415 | $ 1,241,996 |
| Net income | — | — | — | 55,305 | — | 55,305 |
| Other comprehensive income | — | — | — | — | (12,710) | (12,710) |
| Share-based compensation expense | — | — | 3,917 | — | — | 3,917 |
| Issuance of restricted stock, net | 198,627 | — | — | — | — | — |
| Repurchase of common stock | (28,849) | — | (1,579) | — | — | (1,579) |
| Exercise of stock options | 214,290 | 1 | 1,595 | — | — | 1,596 |
| Reclassification of certain tax effects of the Tax Cuts and Jobs Act | — | — | — | (82) | 82 | — |
| Balance at June 30, 2018 | 46,629,118 | $ 459 | $ 1,067,907 | $ 232,372 | $ (12,213) | $ 1,288,525 |
| | | | | | | |
| Balance at December 31, 2016 | 27,798,283 | $ 274 | $ 345,138 | $ 117,049 | $ (2,721) | $ 459,740 |
| Net income | — | — | — | 23,697 | — | 23,697 |
| Other comprehensive income | — | — | — | — | 5,981 | 5,981 |
| Share-based compensation expense | — | — | 2,797 | — | — | 2,797 |
| Issuance of restricted stock, net | 53,468 | — | — | — | — | — |
| Common stock issued | 11,959,022 | 120 | 464,862 | — | — | 464,982 |
| Repurchase of common stock | — | — | (1,077) | — | — | (1,077) |
| Exercise of stock options | 237,985 | 2 | 3,609 | — | — | 3,611 |
| Balance at June 30, 2017 | 40,048,758 | $ 396 | $ 815,329 | $ 140,746 | $ 3,260 | $ 959,731 |

Accompanying notes are an integral part of these consolidated financial statements.

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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

| | Six Months Ended June 30, 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 55,305 | $ 23,697 |
| Adjustments to net income: | | |
| Depreciation and amortization expense | 3,717 | 2,049 |
| Provision for credit losses | 4,014 | 4,190 |
| Share-based compensation expense | 3,917 | 2,796 |
| Loss on sale and disposal of premises and equipment | 52 | 200 |
| Loss (gain) on sale of or write down of other real estate owned | 21 | (94) |
| Net amortization on securities | 3,622 | 3,745 |
| Net accretion of discounts/premiums for loans acquired and deferred loan fees/costs | (1,258) | 1,722 |
| Gain on sale of investment securities available-for-sale | (336) | (2,093) |
| Originations of loans held for sale | (72,699) | (61,448) |
| Proceeds from the sales of and principal payments from loans held for sale | 94,223 | 65,508 |
| Gain on sale of loans | (6,801) | (5,698) |
| Deferred income tax expense | 1,963 | 912 |
| Change in accrued expenses and other liabilities, net | 20,954 | 4,696 |
| Income from bank owned life insurance, net | (961) | (849) |
| Amortization of core deposit intangible | 4,269 | 2,272 |
| Change in accrued interest receivable and other assets, net | (3,383) | 2,066 |
| Net cash provided by operating activities | 106,619 | 43,671 |

| | | |
|---|---|---|
| Cash flows from investing activities: | | |
| Change in other real estate owned from sales | 108 | 182 |
| Increase in loans, net | (88,772) | (254,468) |
| Purchase of held-to-maturity securities | (14,036) | — |
| Principal payments on held-to-maturity securities | 318 | 798 |
| Purchase of securities available-for-sale | (181,536) | (109,944) |
| Principal payments on securities available-for-sale | 47,743 | 33,671 |
| Proceeds from sale or maturity of securities available-for-sale | 20,323 | 216,804 |
| Proceeds from bank owned life insurance death benefit | — | 199 |
| Purchases of premises and equipment | (4,663) | (674) |
| Change in FHLB, FRB, and other stock, at cost | (16,648) | (9,569) |
| Change in cash acquired in acquisitions, net | (456) | 77,144 |
| Net cash used in investing activities | (237,619) | (45,857) |
| Cash flows from financing activities: | | |
| Net increase in deposit accounts | 222,464 | 131,397 |
| Net change in short-term borrowings | (146,677) | (59,321) |
| Repayment of long-term borrowings | (10,500) | — |
| Proceeds from exercise of stock options and warrants | 1,596 | 3,611 |
| Repurchase of common stock | (1,579) | (1,077) |
| Net cash provided by financing activities | 65,304 | 74,610 |
| Net (decrease) increase in cash and cash equivalents | (65,696) | 72,424 |
| Cash and cash equivalents, beginning of period | 197,164 | 156,857 |
| Cash and cash equivalents, end of period | $ 131,468 | $ 229,281 |
| Supplemental cash flow disclosures: | | |
| Interest paid | $ 20,053 | $ 8,828 |
| Income taxes paid | 17,491 | 1,858 |

| | | |
|---|---|---|
| Noncash investing activities during the period: | | |
| Security settled (purchases) in subsequent period | 5,033 | (11,130) |
| Assets acquired (liabilities assumed and capital created) in acquisitions (See Note 4): | | |
| Investment securities | — | 442,923 |
| FHLB and other stock | — | 9,739 |
| Loans | — | 1,364,688 |
| Core deposit intangible | — | 28,123 |
| Deferred income tax | — | 11,623 |
| Goodwill | — | 268,075 |
| Fixed assets | — | 34,902 |
| Other assets | — | 45,475 |
| Deposits | — | (1,669,550) |
| Other borrowings | — | (139,034) |
| Other liabilities | — | (8,352) |
| Common stock and additional paid-in capital | — | (464,982) |

Accompanying notes are an integral part of these consolidated financial statements.

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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(UNAUDITED)

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Pacific Premier Bancorp, Inc. (the “Corporation”) and its wholly owned subsidiaries, including Pacific Premier Bank (the “Bank”) (collectively, the “Company,” “we,” “our” or “us”). A significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company’s financial position as of June 30, 2018 and December 31, 2017, the results of its operations and comprehensive income for the three months ended June 30, 2018, March 31, 2018 and June 30, 2017 and the six months ended June 30, 2018 and 2017 and the changes in stockholders’ equity and cash flows for the six months ended June 30, 2018 and 2017. Operating results or comprehensive income for the six months ended June 30, 2018 are not necessarily indicative of the results or comprehensive income that may be expected for any other interim period or the full year ending December 31, 2018.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 Annual Report”).

The Company accounts for its investments in its wholly owned special purpose entities, PPBI Trust I, Heritage Oaks Capital Trust II, Mission Community Capital Trust I, and Santa Lucia Bancorp (CA) Capital Trust, under the equity method whereby the subsidiary’s net earnings are recognized in the Company’s statement of income.

Note 2 – Recently Issued Accounting Pronouncements

Accounting Standards Adopted in 2018

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU" or "Update") 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law, which among other things reduced the maximum federal corporate tax rate from 35% to 21%. This Update addresses concerns about the guidance in current U.S. GAAP that requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date. That guidance is applicable even in situations in which the related income tax effects of items in accumulated other comprehensive income ("AOCI") were originally recognized in other comprehensive income (rather than in income from continuing operations). As a result of the adjustment of deferred taxes being required to be included in income from continuing operations, the tax effects of items within accumulated other comprehensive income (referred to as stranded tax effects for purposes of this Update) do not reflect the appropriate tax rate. This Update allows for an election to reclassify between retained earnings and AOCI the impact of the federal income tax rate change. The amendments in this Update are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption of the amendments of this Update is permitted. The Company elected to early adopt in the first quarter of 2018. Accordingly,

the Company recorded an increase to AOCI and a decrease to

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retain earnings of approximately $82,000 for stranded tax effects on investment available for sale securities in the first quarter of 2018.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. Under the current implementation guidance in Topic 805, there are three elements of a business-inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a “set”) that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs. The amendments in this Update provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in this Update (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments provide a framework to assist entities in evaluating whether both an input and a substantive process are present. The framework includes two sets of criteria to consider that depend on whether a set has outputs. Although outputs are not required for a set to be a business, outputs generally are a key element of a business; therefore, the Company has developed more stringent criteria for sets without outputs. Lastly, the amendments in this Update narrow the definition of the term output so that the term is consistent with how outputs are described in Topic 606. Public business entities should apply the amendments in this Update to annual periods beginning after December 15, 2017, including interim periods within those periods. The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This Update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

In August 2016, the FASB issued ASU 2016-15, Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This Update provides guidance on eight specific cash flow classification issues, which include: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments or debt with coupon interest rates that are insignificant in relation to the effective interest rate; 3) contingent consideration payments made soon after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; 6) distributions received from equity method investments; 7) beneficial interest in securitization transactions; and 8) separately identifiable cash flows and the application of the predominance principle. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period; however, an entity is required to adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Changes made to the current measurement model primarily affect the accounting for equity securities with readily determinable fair values, where changes in fair value

will impact earnings instead of other comprehensive income. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. This Update also changes the presentation and disclosure requirements for financial instruments including a

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requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2016-01 did not have a material effect on the Company's operating results or financial condition. In accordance with the guidance, the Company measures the fair value of financial instruments reported at amortized cost on the statement of financial condition using the exit price notion. For further details, refer to Note 10 - Fair Value of Financial instruments.

ASU 2014-09, Revenue From Contracts With Customers (Topic 606), ASU 2015-14 Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date, ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, ASU 2016-11 Revenue Recognition (Topic 605) and Derivatives ad Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients and ASU 2016-20 Revenue from Contracts with Customers (Topic 606): Technical Corrections and Improvements to Topic 606. The FASB amended existing guidance related to revenue from contracts with customers, superseding and replacing nearly all existing revenue recognition guidance, including industry-specific guidance, establishing a new control-based revenue recognition model, changing the basis for deciding when revenue is recognized over time or at a point in time, providing new and more detailed guidance on specific topics and expanding and improving disclosures about revenue. In addition, this guidance specifies the accounting for some costs to obtain or fulfill a contract with a customer. The amendments are effective for public entities for annual reporting periods beginning after December 15, 2017.

The Company adopted the provisions of ASU 2014-09 and its related amendments effective January 1, 2018 utilizing the modified retrospective transition method and determined the adoption was insignificant to the financial statements. Since the impact upon adoption of ASU 2014-09 and its related amendments was insignificant to the financial statements, a cumulative effect adjustment to retained earnings was not deemed necessary.

The Company's review of its various revenue streams indicated that approximately 97% of the Company’s revenue is out of the scope of ASU 2014-09 and its related amendments, including all of the Company’s net interest income and a significant portion of non-interest income. For those revenue streams that are within the scope of ASU 2014-09 and its related amendments, the Company reviewed the associated customer contracts and agreements to determine the appropriate accounting for revenues under those contracts. The Company’s review did not identify any significant changes in the timing of revenue recognition under those contracts within the scope of ASU 2014-09 and its related amendments. Significant revenue streams that are within scope primarily relate to service charges and fees associated customer deposit accounts, as well as fees for various other services the Company provides its customers. As a result of the implementation of ASU 2014-09 and its related amendments, the Company will conduct a detailed review of its revenue streams at least annually, or more frequently if deemed necessary.

Recent Accounting Guidance Not Yet Effective

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchase Callable Debt Securities. This Update amends guidance on the amortization period of premiums on certain purchased callable debt securities. The amendments shorten the amortization period of premiums on purchased callable debt securities to the earliest call date. The Update should be applied on a modified retrospective basis through a cumulative-effect adjustment to beginning retained earnings. The effective date of ASU 2017-08 is for interim and annual reporting periods beginning after December 15, 2018. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial

condition.



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In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities, the Update is effective for annual periods beginning after December 15, 2019 and interim period within those annual periods. The Company is currently evaluating the effects of ASU 2016-13 on its financial statements and disclosures. The Company is in the process of compiling key data elements and implementing a software model that will meet the requirements of the new guidance.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This Update is being issued to increase the transparency and comparability around lease obligations. Previously unrecorded off-balance sheet obligations will now be recorded in the consolidated statements of financial condition, accompanied by enhanced qualitative and quantitative disclosures in the notes to the financial statements. The Update is generally effective for public business entities in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently in the process of evaluating existing lease obligations and service agreements under the provisions of the new standard. This evaluation includes an assessment of the appropriate classification and related accounting of each lease agreement under the new standard, a review of applicability of the new standard to existing service agreements and gathering all essential lease data that will facilitate the application of the new standard. Upon adoption of the new standard articulated in this Update, the Company will record a liability representing an obligation to make future lease payments and will also record an asset representing rights to use the underlying leased assets. As of June 30, 2018, the Company believes these assets and liabilities to be recognized under the new standard will amount to less than 1% of the Company's total assets.

Note 3 – Significant Accounting Policies

Our accounting policies are described in Note 1. Description of Business and Summary of Significant Accounting Policies, of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission ("Form 10-K"). Select policies have been reiterated below that have a particular affiliation to our interim financial statements.

Revenue Recognition - The Company accounts for certain of its revenue streams in accordance with ASC 606 - Revenue from Contracts with Customers. Revenue streams within the scope of and accounted for under ASC 606 include: service charges and fees on deposit accounts, debit card interchange fees, fees from other services the Bank provides its customers and gains and losses from the sale of other real estate owned and property, premises and equipment. ASC 606 requires revenue to be recognized when the Company satisfies related performance obligations by transferring to the customer a good or service. The recognition of revenue under ASC 606 requires the Company to first identify the contract with the customer, identify the performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and finally recognize revenue when the performance obligations have been satisfied and the good or service has been transferred. The majority of the Company’s contracts with customers associated with revenue streams that are within the scope of ASC 606 are considered short-term in nature and can be canceled at any time by the customer or the Bank, such as a deposit account agreement. Other more significant revenue streams for the Company such as interest income on loans and investment securities are specifically excluded from the scope of ASC 606 and are accounted for under other applicable U.S. GAAP.

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Certain Acquired Loans–As part of business acquisitions, the Bank acquires certain loans that have shown evidence of credit deterioration since origination. These acquired loans are recorded at the allocated fair value, such that there is no carryover of the seller's allowance for loan losses. Such acquired loans are accounted for individually. The Bank estimates the amount and timing of expected cash flows for each purchased loan, and the expected cash flows in excess of the allocated fair value is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (non-accretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded through the allowance for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Goodwill and Core Deposit Intangible–Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate the necessity for such impairment tests to be performed. The Company has selected the fourth quarter as the period to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Core deposit intangible assets arising from whole bank acquisitions are amortized on either an accelerated basis, reflecting the pattern in which the economic benefits of the intangible assets is consumed or otherwise used up, or on a straight-line amortization method over their estimated useful lives, which range from 6 to 10 years.

Use of Estimates–The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Note 4 – Acquisitions

Plaza Bancorp Acquisition

Effective as of November 1, 2017, the Company completed the acquisition of Plaza Bancorp (“Plaza”), the holding company of Plaza Bank, a California-chartered bank with $1.3 billion in total assets, $1.1 billion in gross loans and $1.1 billion in total deposits at October 31, 2017.
Pursuant to the terms of the merger agreement, each outstanding share of Plaza common stock was converted into the right to receive 0.2000 shares of the Corporation's common stock. The value of the total deal consideration was approximately $246 million, which included approximately $6.5 million of aggregate cash consideration payable to holders of unexercised options and warrants exercisable for shares of Plaza common stock, and the issuance of 6,049,373 shares of the Corporation's common stock, which had a value of $40.40 per share, which was the closing price of the Corporation's common stock on October 31, 2017, the last trading day prior to the consummation of the acquisition.
Goodwill in the amount of $123 million was recognized in the Plaza acquisition. Goodwill represents the future economic benefits arising from net assets acquired that are not individually identified and separately recognized and is attributable to synergies expected to be derived from the combination of the two entities. Goodwill recognized in this transaction is not deductible for income tax purposes.

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The following table represents the assets acquired and liabilities assumed of Plaza as of November 1, 2017 and the fair value adjustments and amounts recorded by the Company in 2017 under the acquisition method of accounting:

| | Plaza Book Value | Fair Value Adjustments | Fair Value |
|---|---|---|---|
| ASSETS ACQUIRED | (dollars in thousands) | | |
| Cash and cash equivalents | $150,459 | $ — | $150,459 |
| Loans, gross | 1,069,359 | (6,458) | 1,062,901 |
| Allowance for loan losses | (13,009) | 13,009 | — |
| Fixed assets | 7,389 | (194) | 7,195 |
| Core deposit intangible | 198 | 10,575 | 10,773 |
| Deferred tax assets | 11,849 | (6,343) | 5,506 |
| Other assets | 19,495 | (589) | 18,906 |
| Total assets acquired | $1,245,740 | $ 10,000 | $1,255,740 |
| LIABILITIES ASSUMED | | | |
| Deposits | $1,081,727 | $ 1,224 | $1,082,951 |
| Borrowings | 40,755 | 397 | 41,152 |
| Other liabilities | 8,956 | (451) | 8,505 |
| Total liabilities assumed | 1,131,438 | 1,170 | 1,132,608 |
| Excess of assets acquired over liabilities assumed | $114,302 | $ 8,830 | 123,132 |
| Consideration paid | | | 245,761 |
| Goodwill recognized | | | $122,629 |

The fair values are estimates and are subject to adjustment for up to one year after the merger date. Since the acquisition, the Company has made net adjustments of $1.3 million related to core deposit intangibles, deferred tax assets, loans and other assets and liabilities.

Heritage Oaks Bancorp Acquisition

Effective as of April 1, 2017, the Company completed the acquisition of Heritage Oaks Bancorp ("HEOP"), the holding company of Heritage Oaks Bank, a California-chartered bank (“Heritage Oaks Bank”) with $2.0 billion in total assets, $1.4 billion in gross loans and $1.7 billion in total deposits at March 31, 2017.

Pursuant to the terms of the merger agreement, each outstanding share of HEOP common stock was converted into the right to receive 0.3471 shares of the Corporation's common stock. The value of the total deal consideration was approximately $467 million, which included approximately $3.9 million of aggregate cash consideration payable to holders of HEOP share-based compensation awards, and the issuance of 11,959,022 shares of the Corporation's common stock, which had a value of $38.55 per share, which was the closing price of the Corporation's common stock on March 31, 2017, the last trading day prior to the consummation of the acquisition.

Goodwill in the amount of $270 million was recognized in the HEOP acquisition. Goodwill represents the future economic benefits arising from net assets acquired that are not individually identified and separately recognized and is attributable to synergies expected to be derived from the combination of the two entities. Goodwill recognized in this transaction is not deductible for income tax purposes.

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The following table represents the assets acquired and liabilities assumed of HEOP as of April 1, 2017 and the fair value adjustments and amounts recorded by the Company in 2017 under the acquisition method of accounting:

| | HEOP Book Value | Fair Value Adjustments | Fair Value |
|---|---|---|---|
| ASSETS ACQUIRED | (dollars in thousands) | | |
| Cash and cash equivalents | $78,728 | $ — | $78,728 |
| Investment securities | 445,299 | (2,376) | 442,923 |
| Loans, gross | 1,384,949 | (20,261) | 1,364,688 |
| Allowance for loan losses | (17,200) | 17,200 | — |
| Fixed assets | 35,567 | (665) | 34,902 |
| Core deposit intangible | 3,207 | 24,916 | 28,123 |
| Deferred tax assets | 17,850 | (7,606) | 10,244 |
| Other assets | 55,235 | (21) | 55,214 |
| Total assets acquired | $2,003,635 | $ 11,187 | $2,014,822 |
| LIABILITIES ASSUMED | | | |
| Deposits | 1,668,085 | 1,465 | 1,669,550 |
| Borrowings | 139,150 | (116) | 139,034 |
| Other Liabilities | 8,059 | 293 | 8,352 |
| Total liabilities assumed | 1,815,294 | 1,642 | 1,816,936 |
| Excess of assets acquired over liabilities assumed | $188,341 | $ 9,545 | 197,886 |
| Consideration paid | | | 467,439 |
| Goodwill recognized | | | $269,553 |

The fair values are estimates and are subject to adjustment for up to one year after the merger date. In the third quarter of 2017, the Company made a $1.1 million adjustment to deferred tax assets and the deal consideration. During the quarter ended June 30, 2018, the Company finalized its fair values with this acquisition.

The Company accounted for these transactions under the acquisition method of accounting in accordance with ASC 805, Business Combinations, which requires purchased assets and liabilities assumed to be recorded at their respective fair values at the date of acquisition.

The loan portfolios of Plaza and HEOP were recorded at fair value at the date of each acquisition. A valuation of Plaza and HEOP's loan portfolio was performed as of the acquisition dates to assess the fair value of the loan portfolio. The loan portfolios were both segmented into two groups; loan with credit deterioration and loans without credit deterioration, and then split further by loan type. The fair value was calculated on an individual loan basis using a discounted cash flow analysis. The discount rate utilized was based on a weighted average cost of capital, considering the cost of equity and cost of debt. Also factored into the fair value estimates were loss rates, recovery period and prepayment rates based on industry standards.

The Company also determined the fair value of the core deposit intangible, securities and deposits with the assistance of third-party valuations as well as the fair value of other real estate owned ("OREO') was based on recent appraisals of the properties.

The core deposit intangible on non-maturing deposits was determined by evaluating the underlying characteristics of the deposit relationships, including customer attrition, deposit interest rates, service charge income, overhead expense and costs of alternative funding. Since the fair value of intangible assets are calculated as if they were stand-alone assets, the presumption is that a hypothetical buyer of the intangible asset would be able to take advantage of potential tax benefits resulting from the asset purchase. The value of the benefit is the present value over the period of the tax benefit, using the discount rate applicable to the asset.

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In determining the fair value of certificates of deposit, a discounted cash flow analysis was used, which involved present valuing the contractual payments over the remaining life of the certificates of deposit at market-based interest rates.

For loans acquired from Plaza and HEOP, the contractual amounts due, expected cash flows to be collected, interest component and fair value as of the respective acquisition dates were as follows:

| | Acquired Loans | |
|---|---|---|
| | Plaza | HEOP |
| | (dollars in thousands) | |
| Contractual amounts due | $1,708,685 | $1,717,191 |
| Cash flows not expected to be collected | 20,152 | 4,442 |
| Expected cash flows | 1,688,533 | 1,712,749 |
| Interest component of expected cash flows | 625,592 | 348,100 |
| Fair value of acquired loans | $1,062,941 | $1,364,649 |

In accordance with U.S. GAAP, there was no carryover of the allowance for loan losses that had been previously recorded by Plaza and HEOP.

The operating results of the Company for the three months ended June 30, 2018, March 31, 2018 and June 30, 2017 and the six months ended June 30, 2018 and June 30, 2017 include the operating results of Plaza and HEOP since its acquisition date. The following table presents the net interest and other income, net income and earnings per share as if the acquisition of Plaza and HEOP were effective as of January 1, 2017. There were no material, nonrecurring adjustments to the pro forma net interest and other income, net income and earnings per share presented below:

| | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | June 30, | March 31, | June 30, | June 30, | |
| | 2018 | 2018 | 2017 | 2018 | 2017 |
| | (dollars in thousands) | | | | |
| Net interest and other income | $87,969 | $86,694 | $85,210 | $174,663 | $163,050 |
| Net income | 27,303 | 28,002 | 17,710 | 55,305 | 31,481 |
| Basic earnings per share | 0.59 | 0.61 | 0.39 | 1.20 | 0.69 |
| Diluted earnings per share | 0.58 | 0.60 | 0.38 | 1.18 | 0.68 |

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Note 5 – Investment Securities

The amortized cost and estimated fair value of securities were as follows:

| | June 30, 2018 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gain | Unrealized Loss | Estimated Fair Value |
| | (dollars in thousands) | | | |
| Investment securities available-for-sale: | | | | |
| Agency | $41,567 | $ — | $(490) | $41,077 |
| Corporate | 93,126 | 433 | (1,057) | 92,502 |
| Municipal bonds | 221,806 | 1,281 | (3,186) | 219,901 |
| Collateralized mortgage obligation: residential | 29,747 | 81 | (670) | 29,158 |
| Mortgage-backed securities: residential | 505,817 | 58 | (13,813) | 492,062 |
| Total investment securities available-for-sale | 892,063 | 1,853 | (19,216) | 874,700 |
| Investment securities held-to-maturity: | | | | |
| Mortgage-backed securities: residential | 30,854 | — | (838) | 30,016 |
| Other | 1,111 | — | — | 1,111 |
| Total investment securities held-to-maturity | 31,965 | — | (838) | 31,127 |
| Total investment securities | $924,028 | $ 1,853 | $(20,054) | $905,827 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gain | Unrealized Loss | Estimated Fair Value |
| | (dollars in thousands) | | | |
| Investment securities available-for-sale: | | | | |
| Agency | $47,051 | $ 236 | $ (78) | $47,209 |
| Corporate | 78,155 | 1,585 | (194) | 79,546 |
| Municipal bonds | 228,929 | 3,942 | (743) | 232,128 |
| Collateralized mortgage obligation: residential | 33,984 | 132 | (335) | 33,781 |
| Mortgage-backed securities: residential | 398,664 | 266 | (4,165) | 394,765 |
| Total investment securities available-for-sale | 786,783 | 6,161 | (5,515) | 787,429 |
| Investment securities held-to-maturity: | | | | |
| Mortgage-backed securities: residential | 17,153 | — | (209) | 16,944 |
| Other | 1,138 | — | — | 1,138 |
| Total investment securities held-to-maturity | 18,291 | — | (209) | 18,082 |
| Total investment securities | $805,074 | $ 6,161 | $ (5,724) | $805,511 |

Unrealized gains and losses on investment securities available-for-sale are recognized in stockholders’ equity as accumulated other comprehensive income or loss. At June 30, 2018, the Company had an accumulated other comprehensive loss of $17.4 million, or $12.2 million net of tax, compared to an accumulated other comprehensive loss of $646,000, or $415,000 net of tax, at December 31, 2017.

At June 30, 2018, mortgage-backed securities ("MBS") with an estimated par value of $46.3 million and a fair value of $47.1 million were pledged as collateral for the Bank’s two repurchase agreements, which totaled $18.5 million, and homeowner’s association (“HOA”) reverse repurchase agreements, which totaled $23.0 million.

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At December 31, 2017, MBS with an estimated par value of $55.6 million and a fair value of $57.0 million were pledged as collateral for the Bank’s three repurchase agreements, which totaled $28.5 million, and HOA reverse repurchase agreements, which totaled $17.6 million.

At June 30, 2018 and December 31, 2017, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

The Company reviews individual securities classified as available-for-sale to determine whether a decline in fair value below the amortized cost basis is temporary because (i) those declines were due to interest rate changes and not to a deterioration in the creditworthiness of the issuers of those investment securities, and (ii) we have the ability to hold those securities until there is a recovery in their values or until their maturity.

If it is probable that the Company will be unable to collect all amounts due according to contractual terms of the debt security not impaired at acquisition, an other-than-temporary impairment ("OTTI") shall be considered to have occurred. If an OTTI occurs, the cost basis of the security will be written down to its fair value as the new cost basis and the write down accounted for as a realized loss.

The Company did not realize any OTTI losses for the three months ended June 30, 2018, March 31, 2018 or June 30, 2017, or the six months ended June 30, 2018 and 2017.

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The table below shows the number, fair value and gross unrealized holding losses of the Company's investment securities by investment category and length of time that the securities have been in a continuous loss position.

| | June 30, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Less than 12 Months | | | 12 Months or Longer | | | Total | | |
| | Number | Fair Value | Gross Unrealized Holding Losses | Number | Fair Value | Gross Unrealized Holding Losses | Number | Fair Value | Gross Unrealized Holding Losses |
| | (dollars in thousands) | | | | | | | | |
| Investment securities available-for-sale: | | | | | | | | | |
| Agency | 19 | $39,828 | $(471) | 1 | $1,249 | $(19) | 20 | $41,077 | $(490) |
| Corporate | 16 | 48,326 | (880) | 2 | 6,014 | (177) | 18 | 54,340 | (1,057) |
| Municipal bonds | 163 | 116,648 | (2,070) | 32 | 16,019 | (1,116) | 195 | 132,667 | (3,186) |
| Collateralized mortgage obligation: residential | 7 | 14,762 | (400) | 3 | 7,658 | (270) | 10 | 22,420 | (670) |
| Mortgage-backed securities: residential | 100 | 348,704 | (8,550) | 49 | 113,184 | (5,263) | 149 | 461,888 | (13,813) |
| Total investment securities available-for-sale | 305 | 568,268 | (12,371) | 87 | 144,124 | (6,845) | 392 | 712,392 | (19,216) |
| Investment securities held-to-maturity: | | | | | | | | | |
| Mortgage-backed securities: residential | 2 | 1,111 | — | — | — | — | 2 | 1,111 | — |
| Other | 6 | 24,063 | (585) | 1 | 5,953 | (253) | 7 | 30,016 | (838) |
| Total investment securities held-to-maturity | 8 | 25,174 | (585) | 1 | 5,953 | (253) | 9 | 31,127 | (838) |
| Total investment securities | 313 | $593,442 | $(12,956) | 88 | $150,077 | $(7,098) | 401 | $743,519 | $(20,054) |

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| | December 31, 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Less than 12 Months | | | 12 Months or Longer | | | Total | | |
| | Number | Fair Value | Gross Unrealized Holding Losses | Number | Fair Value | Gross Unrealized Holding Losses | Number | Fair Value | Gross Unrealized Holding Losses |
| | (dollars in thousands) | | | | | | | | |
| Investment securities available-for-sale: | | | | | | | | | |
| Agency | 6 | $13,754 | $(78) | — | $— | $— | 6 | $13,754 | $(78) |
| Corporate | 4 | 10,079 | (64) | 2 | 6,076 | (130) | 6 | 16,155 | (194) |
| Municipal bonds | 103 | 61,313 | (268) | 30 | 15,658 | (475) | 133 | 76,971 | (743) |
| Collateralized mortgage obligation: residential | 5 | 13,971 | (149) | 3 | 8,943 | (186) | 8 | 22,914 | (335) |
| Mortgage-backed securities: residential | 66 | 220,951 | (1,600) | 41 | 110,062 | (2,565) | 107 | 331,013 | (4,165) |
| Total investment securities available-for-sale | 184 | 320,068 | (2,159) | 76 | 140,739 | (3,356) | 260 | 460,807 | (5,515) |
| Investment securities held-to-maturity: | | | | | | | | | |
| Mortgage-backed securities: residential | 2 | 10,745 | (133) | 1 | 6,198 | (76) | 3 | 16,943 | (209) |
| Total investment securities held-to-maturity | 2 | 10,745 | (133) | 1 | 6,198 | (76) | 3 | 16,943 | (209) |
| Total investment securities | 186 | $330,813 | $(2,292) | 77 | $146,937 | $(3,432) | 263 | $477,750 | $(5,724) |

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The amortized cost and estimated fair value of investment securities at June 30, 2018, by contractual maturity are shown in the table below.

| | One Year or Less | | More than One Year to Five Years | | More than Five Years to Ten Years | | More than Ten Years | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (dollars in thousands) | | | | | | | | | |
| Investment securities available-for-sale: | | | | | | | | | | |
| Agency | $— | $— | $— | $— | $18,560 | $18,371 | $23,007 | $22,706 | $41,567 | $41,077 |
| Corporate | — | — | — | — | 93,126 | 92,502 | — | — | 93,126 | 92,502 |
| Municipal bonds | 3,806 | 3,807 | 36,076 | 36,038 | 68,094 | 66,741 | 113,830 | 113,315 | 221,806 | 219,901 |
| Collateralized mortgage obligation: residential | — | — | — | — | 934 | 936 | 28,813 | 28,222 | 29,747 | 29,158 |
| Mortgage-backed securities: residential | — | — | 2,066 | 2,002 | 119,439 | 117,063 | 384,312 | 372,997 | 505,817 | 492,062 |
| Total investment securities available-for-sale | 3,806 | 3,807 | 38,142 | 38,040 | 300,153 | 295,613 | 549,962 | 537,240 | 892,063 | 874,700 |
| Investment securities held-to-maturity: | | | | | | | | | | |
| Mortgage-backed securities: residential | — | — | — | — | — | — | 30,854 | 30,016 | 30,854 | 30,016 |
| Other | — | — | — | — | — | — | 1,111 | 1,111 | 1,111 | 1,111 |
| Total investment securities held-to-maturity | — | — | — | — | — | — | 31,965 | 31,127 | 31,965 | 31,127 |
| Total investment securities | $3,806 | $3,807 | $38,142 | $38,040 | $300,153 | $295,613 | $581,927 | $568,367 | $924,028 | $905,827 |

During the three months ended June 30, 2018 and June 30, 2017, the Company recognized gross gains on sales of available-for-sale securities in the amount of $330,000 and $2.1 million, respectively. During the three months ended March 31, 2018, the Company recognized gross gains on sales of available-for-sale securities in the amount of $6,000, which represents adjustments to 2017 year end investment sales that settled in January 2018. The Company did not recognize any gross losses on the sales of available-for sale securities during the three months ended June 30, 2018 and March 31, 2018. The Company recognized gross losses on the sales of available-for-sale securities in the amount of $50,000 during the three months ended June 30, 2017. The Company had net proceeds from the sale of available-for-sale securities of $16.2 million, $6,000 and $215 million during the the three months ended June 30, 2018, March 31, 2018 and June 30, 2017.

During the six months ended June 30, 2018 and June 30, 2017, the Company recognized gross gains on sales of available-for-sale securities in the amount of $336,000 and $2.1 million, respectively. During the six months ended June 30, 2018, the Company did not recognize any gross losses on the sales of available-for sale securities. During the six months ended June 30, 2017, the Company recognized gross losses on sales of available-for-sale securities in the amount of $50,000. The Company had net proceeds from the sale of available-for-sale securities of $16.21 million during the six months ended June 30, 2018 and $215 million during the six months ended June 30, 2017.

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FHLB, FRB and other stock

At June 30, 2018, the Company had $17.3 million in Federal Home Loan Bank of San Francisco (“FHLB”) stock, $33.2 million in Federal Reserve Bank of San Francisco (“FRB”) stock, and $32.2 million in other stock, all carried at cost. During the three months ended June 30, 2018 and December 31, 2017, the FHLB did not repurchase any of the Company’s excess FHLB stock through their stock repurchase program. The Company evaluates its investments in FHLB, FRB and other stock for impairment periodically, including their capital adequacy and overall financial condition. No impairment losses have been recorded through June 30, 2018.

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Note 6 – Loans Held for Investment

The following table sets forth the composition of our loan portfolio in dollar amounts at the dates indicated:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| | (dollars in thousands) | |
| Business loans | | |
| Commercial and industrial | $1,102,586 | $1,086,659 |
| Franchise | 708,957 | 660,414 |
| Commercial owner occupied (1) | 1,310,722 | 1,289,213 |
| SBA | 176,696 | 185,514 |
| Agribusiness | 136,962 | 116,066 |
| Total business loans | 3,435,923 | 3,337,866 |
| Real estate loans | | |
| Commercial non-owner occupied | 1,219,747 | 1,243,115 |
| Multi-family | 805,494 | 794,384 |
| One-to-four family (2) | 249,495 | 270,894 |
| Construction | 321,423 | 282,811 |
| Farmland | 136,548 | 145,393 |
| Land | 30,246 | 31,233 |
| Total real estate loans | 2,762,953 | 2,767,830 |
| Consumer loans | | |
| Consumer loans | 81,973 | 92,931 |
| Gross loans held for investment (3) | 6,280,849 | 6,198,627 |
| Deferred loan origination costs/(fees) and premiums/(discounts), net | (3,263) | (2,403) |
| Loans held for investment | 6,277,586 | 6,196,224 |
| Allowance for loan losses | (31,747) | (28,936) |
| Loans held for investment, net | $6,245,839 | $6,167,288 |
| | | |
| Loans held for sale, at lower of cost or fair value | $13,879 | $23,426 |

(1) Secured by real estate.
(2) Includes second trust deeds.
(3) Total gross loans held for investment for June 30, 2018 and December 31, 2017 are net of the unaccreted fair value net purchase discounts of $22.2 million and $29.1 million, respectively.

Loans Serviced for Others

The Company generally retains the servicing rights of the guaranteed portion of Small Business Administration ("SBA") loans sold, for which the Company records a servicing asset at fair value within its other assets category. At June 30, 2018 and December 31, 2017, the servicing asset totaled $8.7 million and $8.8 million, respectively, and was included in its other assets. Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. Impairment is recognized through a valuation allowance, to the extent the fair value is less than the carrying amount. At June 30, 2018 and December 31, 2017, the Company determined that no valuation allowance was necessary.

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Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balance of loans and participations serviced for others were $613 million at June 30, 2018 and $635 million at December 31, 2017.

Concentration of Credit Risk

As of June 30, 2018, the Company’s loan portfolio was primarily collateralized by various forms of real estate and business assets located predominately in California. The Company’s loan portfolio contains concentrations of credit in multi-family real estate, commercial non-owner occupied real estate and commercial owner occupied real estate and business loans. The Bank maintains policies approved by the Bank’s Board of Directors (the “Bank Board”) that address these concentrations and continues to diversify its loan portfolio through loan originations, purchases and sales to meet approved concentration levels. While management believes that the collateral presently securing these loans is adequate, there can be no assurances that a significant deterioration in the California real estate market or economy would not expose the Company to significantly greater credit risk.

Under applicable laws and regulations, the Bank may not make secured loans to one borrower in excess of 25% of the Bank’s unimpaired capital plus surplus and likewise in excess of 15% of the Bank's unimpaired capital plus surplus for unsecured loans. These loans-to-one borrower limitations result in a dollar limitation of $353 million for secured loans and $212 million for unsecured loans at June 30, 2018. At June 30, 2018, the Bank’s largest aggregate outstanding balance of loans to one borrower was $65.8 million of secured credit.

Credit Quality and Credit Risk Management

The Company’s credit quality is maintained and credit risk managed in two distinct areas. The first is the loan origination process, wherein the Bank underwrites credit quality and chooses which risks it is willing to accept. The second is in the ongoing oversight of the loan portfolio, where existing credit risk is measured and monitored, and where performance issues are dealt with in a timely and comprehensive fashion.

The Company maintains a comprehensive credit policy, which sets forth minimum and maximum tolerances for key elements of loan risk. The policy identifies and sets forth specific guidelines for analyzing each of the loan products the Company offers from both an individual and portfolio wide basis. The credit policy is reviewed annually by the Bank Board. The Bank’s underwriters ensure key risk factors are analyzed with nearly all underwriting including a comprehensive global cash flow analysis of the prospective borrowers.

Credit risk is managed within the loan portfolio by the Company’s portfolio managers based on a comprehensive credit and portfolio review policy. This policy requires a program of financial data collection and analysis, comprehensive loan reviews, property and/or business inspections and monitoring of portfolio concentrations and trends. The portfolio managers also monitor asset-based lines of credit, loan covenants and other conditions associated with the Company’s business loans as a means to help identify potential credit risk. Individual loans, excluding the homogeneous loan portfolio, are reviewed at least every two years and in most cases, more often, including the assignment of a risk grade.

Risk grades are based on a six-grade Pass scale, along with Special Mention, Substandard, Doubtful and Loss classifications, as such classifications are defined by the regulatory agencies. The assignment of risk grades allows the Company to, among other things; identify the risk associated with each credit in the portfolio, and to provide a basis for estimating credit losses inherent in the portfolio. Risk grades are reviewed regularly by the Company’s Credit and Portfolio Review Committee, and are reviewed annually by an independent third party, as well as by regulatory agencies during scheduled examinations.

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The following provides brief definitions for risk grades assigned to loans in the portfolio:

- Pass classifications represent assets with a level of credit quality, in which no well-defined deficiency or weakness exists.
- Special Mention assets do not currently expose the Bank to a sufficient risk to warrant classification in one of the adverse categories, but possess correctable deficiencies or potential weaknesses deserving management's close attention.
- Substandard assets are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. These assets are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. OREO acquired from foreclosure is also classified as Substandard.
- Doubtful credits have all the weaknesses inherent in Substandard credits, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
- Loss assets are those that are considered uncollectible and of such little value that their continuance as assets is not warranted. Amounts classified as loss are promptly charged off.

The Bank's portfolio managers also manage loan performance risks, collections, workouts, bankruptcies and foreclosures. Loan performance risks are mitigated by our portfolio managers acting promptly and assertively to address problem credits when they are identified. Collection efforts are commenced immediately upon non-payment, and the portfolio managers seek to promptly determine the appropriate steps to minimize the Company's risk of loss. When foreclosure will maximize the Company's recovery for a non-performing loan, the portfolio managers will take appropriate action to initiate the foreclosure process.

When a loan is graded as Special Mention, or Substandard or Doubtful, the Company obtains an updated valuation of the underlying collateral. If the credit in question is also identified as impaired, a valuation allowance, if necessary, is established against such loan or a loss is recognized by a charge to the allowance for loan losses ("ALLL") if management believes that the full amount of the Company's recorded investment in the loan is no longer collectable. The Company typically continues to obtain or confirm updated valuations of underlying collateral for Special Mention and classified loans on an annual basis in order to have the most current indication of fair value. Once a loan is identified as impaired, an analysis of the underlying collateral is performed at least quarterly, and corresponding changes in any related valuation allowance are made or balances deemed to be fully uncollectable are charged-off.

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The following tables stratify the loan portfolio by the Company's internal risk grading as of the periods indicated:

| | Credit Risk Grades | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Total Gross Loans |
| June 30, 2018 | (dollars in thousands) | | | | |
| Business loans | | | | | |
| Commercial and industrial | $1,080,580 | $9,952 | $ 12,054 | $ — | $1,102,586 |
| Franchise | 708,748 | — | 209 | — | 708,957 |
| Commercial owner occupied | 1,296,927 | 641 | 13,154 | — | 1,310,722 |
| SBA | 181,347 | 1,096 | 3,189 | — | 185,632 |
| Agribusiness | 128,709 | — | 8,253 | — | 136,962 |
| Real estate loans | | | | | |
| Commercial non-owner occupied | 1,222,448 | — | 2,242 | — | 1,224,690 |
| Multi-family | 803,977 | 703 | 814 | — | 805,494 |
| One-to-four family | 247,452 | 136 | 1,907 | — | 249,495 |
| Construction | 321,423 | — | — | — | 321,423 |
| Farmland | 136,422 | — | 126 | — | 136,548 |
| Land | 30,036 | — | 210 | — | 30,246 |
| Consumer loans | | | | | |
| Consumer loans | 81,837 | — | 136 | — | 81,973 |
| Totals | $6,239,906 | $12,528 | $ 42,294 | $ — | $6,294,728 |

| | Credit Risk Grades | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Total Gross Loans |
| December 31, 2017 | (dollars in thousands) | | | | |
| Business loans | | | | | |
| Commercial and industrial | $1,063,452 | $8,163 | $ 15,044 | $ — | $1,086,659 |
| Franchise | 660,414 | — | — | — | 660,414 |
| Commercial owner occupied | 1,273,381 | 654 | 21,180 | — | 1,295,215 |
| SBA | 199,468 | 1 | 3,469 | — | 202,938 |
| Agribusiness | 108,143 | 4,079 | 3,844 | — | 116,066 |
| Real estate loans | | | | | |
| Commercial non-owner occupied | 1,242,045 | — | 1,070 | — | 1,243,115 |
| Multi-family | 794,156 | — | 228 | — | 794,384 |
| One-to-four family | 268,776 | 154 | 1,964 | — | 270,894 |
| Construction | 282,294 | 517 | — | — | 282,811 |
| Farmland | 144,234 | 44 | 1,115 | — | 145,393 |
| Land | 30,979 | — | 254 | — | 31,233 |
| Consumer loans | | | | | |
| Consumer loans | 92,794 | — | 137 | — | 92,931 |
| Totals | $6,160,136 | $13,612 | $ 48,305 | $ — | $6,222,053 |

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The following tables set forth delinquencies in the Company's loan portfolio at the dates indicated:

| | | Days Past Due | | | | |
|---|---|---|---|---|---|---|
| | Current | 30-59 | 60-89 | 90+ | Total Gross Loans | Non-accruing |
| June 30, 2018 | (dollars in thousands) | | | | | |
| Business loans | | | | | | |
| Commercial and industrial | $1,100,623 | $1,863 | $— | $100 | $1,102,586 | $ 1,062 |
| Franchise | 708,748 | — | — | 209 | 708,957 | 209 |
| Commercial owner occupied | 1,310,722 | — | — | — | 1,310,722 | — |
| SBA | 183,835 | 488 | — | 1,309 | 185,632 | 1,423 |
| Agribusiness | 136,962 | — | — | — | 136,962 | — |
| Real estate loans | | | | | | |
| Commercial non-owner occupied | 1,222,694 | 706 | 1,290 | — | 1,224,690 | 1,290 |
| Multi-family | 804,905 | — | — | 589 | 805,494 | 589 |
| One-to-four family | 248,608 | 526 | — | 361 | 249,495 | 1,445 |
| Construction | 321,423 | — | — | — | 321,423 | — |
| Farmland | 136,548 | — | — | — | 136,548 | — |
| Land | 30,240 | — | — | 6 | 30,246 | 6 |
| Consumer loans | | | | | | |
| Consumer loans | 81,973 | — | — | — | 81,973 | 15 |
| Totals | $6,287,281 | $3,583 | $1,290 | $2,574 | $6,294,728 | $ 6,039 |

| | | Days Past Due | | | | |
|---|---|---|---|---|---|---|
| | Current | 30-59 | 60-89 | 90+ | Total Gross Loans | Non-accruing |
| December 31, 2017 | (dollars in thousands) | | | | | |
| Business loans | | | | | | |
| Commercial and industrial | $1,085,770 | $84 | $570 | $235 | $1,086,659 | $ 1,160 |
| Franchise | 660,414 | — | — | — | 660,414 | — |
| Commercial owner occupied | 1,291,255 | 3,474 | 486 | — | 1,295,215 | 97 |
| SBA | 200,821 | 177 | — | 1,940 | 202,938 | 1,201 |
| Agribusiness | 116,066 | — | — | — | 116,066 | — |
| Real estate loans | | | | | | |
| Commercial non-owner occupied | 1,243,115 | — | — | — | 1,243,115 | — |
| Multi-family | 792,603 | 1,781 | — | — | 794,384 | — |
| One-to-four family | 269,725 | 354 | — | 815 | 270,894 | 817 |
| Construction | 282,811 | — | — | — | 282,811 | — |
| Farmland | 145,393 | — | — | — | 145,393 | — |
| Land | 31,141 | 83 | — | 9 | 31,233 | 9 |
| Consumer loans | | | | | | |
| Consumer loans | 92,880 | 11 | — | 40 | 92,931 | — |
| Totals | $6,211,994 | $5,964 | $1,056 | $3,039 | $6,222,053 | $ 3,284 |

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Impaired Loans

The Company considers a loan to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or it is determined that the likelihood of the Company receiving all scheduled payments, including interest, when due is remote. The Company has no commitments to lend additional funds to debtors whose loans have been impaired.

The Company reviews loans for impairment when the loan is classified as Substandard or worse, delinquent 90 days, or determined by management to be collateral dependent, or when the borrower files bankruptcy or is granted a troubled debt restructuring ("TDR"). Measurement of impairment is based on the loan's expected future cash flows discounted at the loan's effective interest rate, measured by reference to an observable market value, if one exists, or the fair value of the collateral if the loan is deemed collateral dependent. Loans are generally charged-off at such time the loan is classified as a loss. Valuation allowances are determined on a loan-by-loan basis or by aggregating loans with similar risk characteristics.

The following tables provide a summary of the Company's investment in impaired loans as of the period indicated:

| | Impaired Loans | | | | |
|---|---|---|---|---|---|
| | Unpaid Principal Balance | Recorded Investment | With Specific Allowance | Without Specific Allowance | Specific Allowance for Impaired Loans |
| | (dollars in thousands) | | | | |
| June 30, 2018 | | | | | |
| Business loans | | | | | |
| Commercial and industrial | $1,523 | $ 1,062 | $ — | $ 1,062 | $ — |
| Franchise | 205 | 209 | — | 209 | — |
| SBA | 4,926 | 1,423 | — | 1,423 | — |
| Real estate loans | | | | | |
| Commercial non-owner occupied | 1,287 | 1,290 | — | 1,290 | — |
| Multi-family | 589 | 589 | — | 589 | — |
| One-to-four family | 1,502 | 1,445 | — | 1,445 | — |
| Land | 34 | 6 | — | 6 | — |
| Consumer loans | | | | | |
| Consumer loans | 16 | 15 | — | 15 | — |
| Totals | $10,082 | $ 6,039 | $ — | $ 6,039 | $ — |

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| | Impaired Loans | | | | |
|---|---|---|---|---|---|
| | Unpaid Principal Balance | Recorded Investment | With Specific Allowance | Without Specific Allowance | Specific Allowance for Impaired Loans |
| | (dollars in thousands) | | | | |
| December 31, 2017 | | | | | |
| Business loans | | | | | |
| Commercial and industrial | $1,585 | $ 1,160 | $ — | $ 1,160 | $ — |
| Commercial owner occupied | 98 | 97 | 97 | — | 55 |
| SBA | 4,329 | 1,201 | — | 1,201 | — |
| Real estate loans | | | | | |
| One-to-four family | 849 | 817 | — | 817 | — |
| Land | 35 | 9 | — | 9 | — |
| Totals | $6,896 | $ 3,284 | $ 97 | $ 3,187 | $ 55 |

| | Impaired Loans Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2018 | | March 31, 2018 | | June 30, 2017 | |
| | Average Recorded Investment | Interest Income Recognized (1) | Average Recorded Investment | Interest Income Recognized (1) | Average Recorded Investment | Interest Income Recognized (1) |
| | (dollars in thousands) | | | | | |
| Business loans | | | | | | |
| Commercial and industrial | $1,272 | $ — | $ 1,181 | $ — | $ 7 | $ — |
| Franchise | 70 | — | — | — | — | — |
| Commercial owner occupied | 2,317 | — | 3,475 | — | 125 | 2 |
| SBA | 1,360 | — | 1,241 | — | 222 | 4 |
| Real estate loans | | | | | | |
| Commercial non-owner occupied | 430 | — | — | — | — | — |
| Multi-family | 589 | — | 821 | — | — | — |
| One-to-four family | 1,343 | — | 1,024 | — | 105 | 3 |
| Construction | — | — | — | — | — | — |
| Land | 6 | — | 8 | — | 12 | 1 |
| Consumer loans | | | | | | |
| Consumer loans | 15 | $ — | 94 | — | — | — |
| Totals | $7,402 | $ — | $ 7,844 | $ — | $ 471 | $ 10 |

(1) Cash basis and accrual basis is materially the same.

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| | Impaired Loans Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Average Recorded Investment | Interest Income Recognized (1) | Average Recorded Investment | Interest Income Recognized (1) |
| | (dollars in thousands) | | | |
| Business loans: | | | | |
| Commercial and industrial | $1,226 | $ — | $200 | $ 5 |
| Franchise | 35 | — | — | — |
| Commercial owner occupied | 2,896 | — | 192 | 5 |
| SBA | 1,300 | — | 307 | 9 |
| Real estate loans: | | | | |
| Commercial non-owner occupied | 215 | — | — | — |
| Multi-family | 705 | — | — | — |
| One-to-four family | 1,184 | — | 116 | 6 |
| Land | 7 | — | 14 | 2 |
| Consumer loans: | | | | |
| Consumer loans | 55 | — | — | — |
| Totals | $7,623 | $ — | $829 | $ 27 |

(1) Cash basis and accrual basis is materially the same.

The following table provides additional detail on the components of impaired loans at the period end indicated:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| | (dollars in thousands) | |
| Nonaccruing loans | $6,039 | $ 3,284 |
| Accruing loans | — | — |
| Total impaired loans | $6,039 | $ 3,284 |

When loans are placed on nonaccrual status, all accrued interest and outstanding is reversed from earnings. Payments received on nonaccrual loans are generally applied as a reduction to the loan principal balance. If the likelihood of further loss is remote, the Company will recognize interest on a cash basis only. Loans may be returned to accruing status if the Company believes that all remaining principal and interest is fully collectible and there has been at least three months of sustained repayment performance since the loan was placed on nonaccrual.

The Company does not accrue interest on loans 90 days or more past due or when, in the opinion of management, there is reasonable doubt as to the collection of interest. The Company had impaired loans on nonaccrual status of $6.0 million at June 30, 2018 and $3.3 million at December 31, 2017. The Company had no loans 90 days or more past due and still accruing at June 30, 2018, compared to $1.8 million at December 31, 2017.

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There were no TDRs at June 30, 2018 and $97,000 at December 31, 2017. In addition, the Company had no consumer mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings were in process as of June 30, 2018. This compares to $73,000 at December 31, 2017.

Purchased Credit Impaired Loans

The Company has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is as follows:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| | (dollars in thousands) | |
| Business loans | | |
| Commercial and industrial | $3,026 | $ 3,310 |
| Commercial owner occupied | 769 | 1,262 |
| SBA | 11 | 1,802 |
| Real estate loans | | |
| Commercial non-owner occupied | 1,247 | 1,650 |
| One-to-four family | — | 255 |
| Construction | — | 517 |
| Land | 79 | 83 |
| Consumer loans | 8 | 10 |
| Total purchase credit impaired | $5,140 | $ 8,889 |

On each acquisition date, the amount by which the undiscounted expected cash flows of the purchased credit impaired loans exceed the estimated fair value of the loan is the “accretable yield.” The accretable yield is measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the purchased credit impaired loan. At June 30, 2018, the Company had $5.1 million of purchased credit impaired loans, of which none were placed on nonaccrual status.

The following table summarizes the accretable yield on the purchased credit impaired loans for the three and six month periods indicated.

| | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | June 30, | March 31, | June 30, | June 30, | |
| | 2018 | 2018 | 2017 | 2018 | 2017 |
| | (dollars in thousands) | | | | |
| Balance at the beginning of period | $1,709 | $3,019 | $3,601 | $3,019 | $3,747 |
| Additions | — | — | 2,036 | — | 2,036 |
| Accretion | (270 ) | (236 ) | (712 ) | (506 ) | (1,341 ) |
| Payoffs | 32 | (1,850 ) | — | (1,818 ) | — |
| Reclassification from (to) nonaccretable difference | 2 | 776 | (1,428 ) | 778 | (945 ) |
| Balance at the end of period | $1,473 | $1,709 | $3,497 | $1,473 | $3,497 |

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Note 7 – Allowance for Loan Losses

The Company's ALLL covers estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated probable incurred losses inherent in the remainder of the loan portfolio. The ALLL is prepared using the information provided by the Company's credit review process together with data from peer institutions and economic information gathered from published sources.

The loan portfolio is segmented into groups of loans with similar risk characteristics. Each segment possesses varying degrees of risk based on, among other things, the type of loan, the type of collateral and the sensitivity of the borrower or industry to changes in external factors such as economic conditions. An estimated loss rate calculated using the Company's actual historical loss rates adjusted for current portfolio trends, economic conditions and other relevant internal and external factors, is applied to each group's aggregate loan balances.

The Company's base ALLL factors are determined by management using the Bank's annualized actual trailing charge-off data over a full credit cycle with the loss emergence period extending from 1 year to 1.4 years. Adjustments to those base factors are made for relevant internal and external factors. Those factors may include:

- Changes in national, regional and local economic conditions, including trends in real estate values and the interest rate environment,
- Changes in the nature and volume of the loan portfolio, including new types of lending,
- Changes in volume and severity of past due loans, the volume of nonaccrual loans and the volume and severity of adversely classified or graded loans, and
- The existence and effect of concentrations of credit, and changes in the level of such concentrations.

For loans risk graded as watch or worse, progressively higher potential loss factors are applied based on migration analysis of risk grading and net charge-offs.

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The following tables summarize the allocation of the ALLL, as well as the activity in the ALLL attributed to various segments in the loan portfolio as of and for the three and six months ended for the periods indicated:

| | Three Months Ended June 30, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Commercial and industrial | Franchise | Commercial owner occupied | SBA | Agribusiness | Commercial non-owner occupied | Multi-family | One-to-four family | Cons |
| | (dollars in thousands) | | | | | | | | |
| Balance, March 31, 2018 | $9,492 | $6,095 | $791 | $2,814 | $2,105 | $1,337 | $592 | $745 | $5,0 |
| Charge-offs | (246) | — | — | (27) | — | — | — | — | — |
| Recoveries | 138 | — | 16 | 9 | — | — | — | 1 | — |
| Provisions for (reduction in) loan losses | 780 | 86 | 330 | (221) | 589 | 113 | (29) | (48) | (266 |
| Balance, June 30, 2018 | $10,164 | $6,181 | $1,137 | $2,575 | $2,694 | $1,450 | $563 | $698 | $4,8 |

| | Six Months Ended June 30, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Commercial and industrial | Franchise | Commercial owner occupied | SBA | Agribusiness | Commercial non-owner occupied | Multi-family | One-to-four family | Cons |
| | (dollars in thousands) | | | | | | | | |
| Balance, December 31, 2017 | $9,721 | $5,797 | $767 | $2,890 | $1,291 | $1,266 | $607 | $803 | $4,5 |
| Charge-offs | (911) | — | — | (56) | — | — | — | — | — |
| Recoveries | 163 | — | 24 | 35 | — | — | — | 1 | — |
| Provisions for (reduction in) loan losses | 1,191 | 384 | 346 | (294) | 1,403 | 184 | (44) | (106) | 240 |
| Balance, June 30, 2018 | $10,164 | $6,181 | $1,137 | $2,575 | $2,694 | $1,450 | $563 | $698 | $4,8 |
| | | | | | | | | | |
| Amount of allowance attributed to: | | | | | | | | | |
| Specifically evaluated impaired loans | $— | $— | $— | $— | $— | $— | $— | $— | $— |
| General portfolio | 10,164 | 6,181 | 1,137 | 2,575 | 2,694 | 1,450 | 563 | 698 | 4,80 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| allocation | | | | | | | | | |
| Loans individually evaluated for impairment | 1,062 | 209 | — | 1,423 | — | 1,290 | 589 | 1,445 | — |
| Specific reserves to total loans individually evaluated for impairment | — % | — % | — % | — % | — % | — % | — % | — % | — |
| Loans collectively evaluated for impairment | $1,101,524 | $708,748 | $1,310,722 | $175,273 | $136,962 | $1,218,457 | $804,905 | $248,050 | $321 |
| General reserves to total loans collectively evaluated for impairment | 0.92 % | 0.87 % | 0.09 % | 1.47 % | 1.97 % | 0.12 % | 0.07 % | 0.28 % | 1.50 |
| Total gross loans held for investment | $1,102,586 | $708,957 | $1,310,722 | $176,696 | $136,962 | $1,219,747 | $805,494 | $249,495 | $321 |
| Total allowance to gross loans held for investment | 0.92 % | 0.87 % | 0.09 % | 1.46 % | 1.97 % | 0.12 % | 0.07 % | 0.28 % | 1.50 |

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| | Three Months Ended June 30, 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Commercial and industrial | Franchise | Commercial owner occupied | SBA | Agribusiness | Commercial non-owner occupied | Multi-family | One-to-four family | Construct |
| | (dollars in thousands) | | | | | | | | |
| Balance, March 31, 2017 | $6,949 | $4,474 | $1,232 | $1,145 | $— | $1,847 | $2,803 | $373 | $4,027 |
| Charge-offs | (110) | — | — | — | — | — | — | — | — |
| Recoveries | 33 | — | 70 | 81 | — | — | — | 1 | — |
| Provisions for (reduction in) loan losses | 772 | 893 | (630) | 1,293 | 206 | (643) | (2,192) | 350 | 1,009 |
| Balance, June 30, 2017 | $7,644 | $5,367 | $672 | $2,519 | $206 | $1,204 | $611 | $724 | $5,036 |

| | Six Months Ended June 30, 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Commercial and industrial | Franchise | Commercial owner occupied | SBA | Agribusiness | Commercial non-owner occupied | Multi-family | One-to-four family | Construct |
| | (dollars in thousands) | | | | | | | | |
| Balance, December 31, 2016 | $6,362 | $3,845 | $1,193 | $1,039 | $— | $1,715 | $2,927 | $365 | $3,632 |
| Charge-offs | (862) | — | — | (8) | — | — | — | — | — |
| Recoveries | 55 | — | 82 | 83 | — | — | — | 2 | — |
| Provisions for (reduction in) loan losses | 2,089 | 1,522 | (603) | 1,405 | 206 | (511) | (2,316) | 357 | 1,404 |
| Balance, June 30, 2017 | $7,644 | $5,367 | $672 | $2,519 | $206 | $1,204 | $611 | $724 | $5,036 |
| Amount of allowance attributed to: | | | | | | | | | |
| Specifically evaluated impaired loans | $— | $— | $— | $— | $— | $— | $— | $— | $— |
| General portfolio allocation | 7,644 | 5,367 | 672 | 2,519 | 206 | 1,204 | 611 | 724 | 5,036 |
| | — | — | 206 | 73 | — | — | — | 104 | — |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Loans individually evaluated for impairment | | | | | | | | | |
| Specific reserves to total loans individually evaluated for impairment | — % | — % | — % | — % | — % | — % | — % | — % | — |
| Loans collectively evaluated for impairment | $733,852 | $565,415 | $729,270 | $101,311 | $98,842 | $1,095,184 | $746,547 | $321,944 | $289,600 |
| General reserves to total loans collectively evaluated for impairment | 1.04 % | 0.95 % | 0.09 % | 2.49 % | 0.21 % | 0.11 % | 0.08 % | 0.22 % | 1.74 |
| Total gross loans held for investment | $733,852 | $565,415 | $729,476 | $101,384 | $98,842 | $1,095,184 | $746,547 | $322,048 | $289,600 |
| Total allowance to gross loans held for investment | 1.04 % | 0.95 % | 0.09 % | 2.48 % | 0.21 % | 0.11 % | 0.08 % | 0.22 % | 1.74 |

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Note 8 – Subordinated Debentures

In August 2014, the Corporation issued $60 million in aggregate principal amount of 5.75% Subordinated Notes Due 2024 (the “Notes”) in a private placement transaction to institutional accredited investors (the “Private Placement”). The Corporation contributed $50 million of net proceeds from the Private Placement to the Bank to support general corporate purposes. The Notes bear interest at an annual fixed rate of 5.75%, and the first interest payment on the Notes occurred on March 3rd, 2015, and will continue to be payable semiannually each March 3rd and September 3rd until September 3, 2024. The Notes can only be redeemed, partially or in whole, prior to the maturity date if the notes do not constitute Tier 2 Capital (for purposes of capital adequacy guidelines of the Board of Governors of the Federal Reserve). Outstanding principal and accrued and unpaid interest are due upon early redemption.

In connection with the Private Placement, the Corporation obtained ratings from Kroll Bond Rating Agency (“KBRA”). KBRA assigned investment grade ratings of BBB+ and BBB for the Corporation’s senior unsecured debt and subordinated debt, respectively, and a senior deposit rating of A- for the Bank. These ratings were reaffirmed by KBRA on October 27, 2017.

In March 2004, the Corporation issued $10.3 million of Floating Rate Junior Subordinated Deferrable Interest Debentures (the “Subordinated Debentures”) to PPBI Trust I, statutory trust created under the laws of the State of Delaware. The Subordinated Debentures are subordinated to effectively all borrowings of the Corporation and are due and payable on April 6, 2034. Interest is payable quarterly on the Subordinated Debentures at three-month LIBOR plus 2.75% per annum, for an effective rate of 5.10% per annum, as of June 30, 2018. The Subordinated Debentures may be redeemed, in part or whole, on or after April 7, 2009 at the option of the Corporation, at par. The Subordinated Debentures can also be redeemed at par if certain events occur that impact the tax treatment or the capital treatment of the issuance. The Corporation also purchased a 3% minority interest totaling $310,000 in PPBI Trust I. The balance of equity of PPBI Trust I is comprised of mandatorily redeemable securities (“Trust Preferred Securities”) and is included in the Corporation's other assets category. PPBI Trust I sold $10,000,000 of Trust Preferred Securities to investors in a private offering.

On April 1, 2017, as part of the HEOP acquisition, the Corporation assumed $5.2 million of floating rate junior subordinated debt securities associated with Heritage Oaks Capital Trust II. Interest is payable quarterly at three-month LIBOR plus 1.72% per annum, for an effective rate of 4.03% per annum as of June 30, 2018. At June 30, 2018, the carrying value of these debentures was $4.0 million, which reflects purchase accounting fair value adjustments of $1.3 million. The Corporation also assumed $3.1 million and $5.2 million of floating rate junior subordinated debt associated with Mission Community Capital Trust I and Santa Lucia Bancorp (CA) Capital Trust, respectively. At June 30, 2018, the carrying value of Mission Community Capital Trust I and Santa Lucia Bancorp (CA) Capital Trust were $2.8 million and $3.8 million, respectively, which reflects purchase accounting fair value adjustments of $316,000 and $1.4 million, respectively. Interest is payable quarterly at three-month LIBOR plus 2.95% per annum, for an effective rate of 5.30% per annum as of June 30, 2018 for Mission Community Capital Trust I. Interest is payable quarterly at three-month LIBOR plus 1.48% per annum, for an effective rate of 3.83% per annum as of June 30, 2018 for Santa Lucia Bancorp (CA) Capital Trust. These three debentures are callable by the Corporation at par.

On November 1, 2017, as part of the Plaza acquisition, the Company assumed three subordinated notes totaling $25 million at a fixed interest rate of 7.125% payable in arrears on a quarterly basis. The notes have a maturity date of June 26, 2025 and are also redeemable in whole or in part from time to time beginning in June 26, 2020 at an amount equal to 103.0% of principal plus accrued unpaid interest. The redemption price decreases 50 basis points each subsequent year.

The Corporation is not allowed to consolidate any trust preferred securities into the Company's consolidated financial statements. The resulting effect on the Company's consolidated financial statements is to report only the subordinated debentures relating to trust preferred securities as a component of the Company's liabilities.

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Note 9 – Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding for the period, excluding common shares in treasury. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted from the issuance of common stock that would then share in earnings and excludes common shares in treasury. Stock options exercisable for shares of common stock are excluded from the computation of diluted earnings per share if they are anti-dilutive due to their exercise price exceeding the average market price during the period.

The impact of stock options, which are anti-dilutive, are excluded from the computations of diluted earnings per share. The dilutive impact of these securities could be included in future computations of diluted earnings per share if the market price of the common stock increases. The following table sets forth the weighted average number of stock options excluded for the periods indicated:

| | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | June 30, 2018 | March 31, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Weighted average stock options excluded | — | — | 15,531 | — | 7,389 |

The following tables set forth the Company’s earnings per share calculations for the periods indicated:

| | Three Months Ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | June 30, 2018 | | | March 31, 2018 | | | June 30, 2017 | | |
| | Net Income | Shares | Per Share Amount | Net Income | Shares | Per Share Amount | Net Income | Shares | Per Share Amount |
| | (dollars in thousands, except per share data) | | | | | | | | |
| Net income | $27,303 | | | $28,002 | | | $14,176 | | |
| Basic income available to common stockholders | 27,303 | 46,053,077 | $ 0.59 | 28,002 | 45,893,496 | $ 0.61 | 14,176 | 39,586,524 | $ 0.36 |
| Dilutive effect of share-based compensation | — | 649,891 | | — | 758,563 | | — | 680,696 | |
| Diluted income available to common stockholders plus assumed conversions | $27,303 | 46,702,968 | $ 0.58 | $28,002 | 46,652,059 | $ 0.60 | $14,176 | 40,267,220 | $ 0.35 |

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| | Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Net Income | Shares | Per Share Amount | Net Income | Shares | Per Share Amount |
| | (dollars in thousands, except per share data) | | | | | |
| Net income | $55,305 | | | $23,697 | | |
| Basic income available to common stockholders | 55,305 | 45,973,727 | $ 1.20 | 23,697 | 33,591,040 | $ 0.71 |
| Effect of dilutive stock options and warrants | | 704,396 | | | 676,175 | |
| Diluted income available to common stockholders plus assumed conversions | $55,305 | 46,678,123 | $ 1.18 | $23,697 | 34,267,215 | $ 0.69 |

Note 10 – Fair Value of Financial Instruments

The fair value of an asset or liability is the exchange price that would be received to sell that asset or paid to transfer that liability (exit price) in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including both those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis and a non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value are discussed below.

In accordance with accounting guidance, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, prepayment speeds, volatilities, etc.) or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly, in the market.

Level 3 - Valuation is generated from model-based techniques where one or more significant inputs are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect the Company’s own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of matrix pricing, discounted cash flow models, and similar techniques.

Because no market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly

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affect the fair values presented. Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent limitations in any estimation technique.
A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management maximizes the use of observable inputs and attempts to minimize the use of unobservable inputs when determining fair value measurements.

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.
The following is a description of both the general and specific valuation methodologies used for certain instruments measured at fair value, as well as the general classification of these instruments pursuant to the valuation hierarchy.

Investment securities – Investment securities are generally valued based upon quotes obtained from independent third-party pricing services, which uses evaluated pricing applications and model processes. Observable market inputs, such as, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data are considered as part of the evaluation. The inputs are related directly to the security being evaluated, or indirectly to a similarly situated security. Market assumptions and market data are utilized in the valuation models. The Company reviews the market prices provided by the third-party pricing service for reasonableness based on the Company's understanding of the market place and credit issues related to the securities. The Company has not made any adjustments to the market quotes provided by them and, accordingly, the Company categorized its investment portfolio within Level 2 of the fair value hierarchy.

Impaired Loans and Other Real Estate Owned – A loan is considered impaired when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Impairment is measured based on the fair value of the underlying collateral or the discounted expected future cash flows. The Company measures impairment on all non-accrual loans for which it has reduced the principal balance to the value of the underlying collateral less the anticipated selling cost. As such, the Company records impaired loans as Level 3. At June 30, 2018, substantially all the Company's impaired loans were evaluated based on the fair value of their underlying collateral based upon the most recent appraisal available to management and has concluded no reserves or write-downs are necessary.

The fair value of impaired loans and other real estate owned were determined using Level 3 assumptions, and represents impaired loan and other real estate owned balances for which a specific reserve has been established or on which a write down has been taken. Generally, the Company obtains third party appraisals (or property valuations) and/or collateral audits in conjunction with internal analysis based on historical experience on its impaired loans and other real estate owned to determine fair value. In determining the net realizable value of the underlying collateral for impaired loans, the Company will then discount the valuation to cover both market price fluctuations and selling costs the Company expected would be incurred in the event of foreclosure. In addition to the discounts taken, the Company's calculation of net realizable value considered any other senior liens in place on the underlying collateral.

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The fair value estimates presented herein are based on pertinent information available to management as of the periods indicated, representing an exit price.

| | At June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Level 1 | Level 2 | Level 3 | Estimated Fair Value |
| | (dollars in thousands) | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | $131,468 | $131,468 | $ — | $ — | $131,468 |
| Interest-bearing time deposits with financial institutions | 6,633 | 6,633 | — | — | 6,633 |
| Investments held-to-maturity | 31,965 | — | 31,126 | — | 31,126 |
| Investment securities available-for-sale | 874,700 | — | 874,700 | — | 874,700 |
| FHLB, FRB and other stock | 82,666 | N/A | N/A | N/A | N/A |
| Loans held for sale | 13,879 | — | 14,940 | — | 14,940 |
| Loans held for investment, net | 6,277,586 | — | — | 6,279,915 | 6,279,915 |
| Derivative asset | 3,272 | — | 3,272 | — | 3,272 |
| Accrued interest receivable | 27,420 | 27,420 | — | — | 27,420 |
| Liabilities: | | | | | |
| Deposit accounts | 6,308,350 | 5,139,299 | 1,160,215 | — | 6,299,514 |
| FHLB advances | 337,638 | — | 336,504 | — | 336,504 |
| Other borrowings | 41,462 | — | 41,514 | — | 41,514 |
| Subordinated debentures | 105,253 | — | 116,004 | — | 116,004 |
| Derivative liability | 3,272 | — | 3,272 | — | 3,272 |
| Accrued interest payable | 1,151 | 1,151 | — | — | 1,151 |

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| | At December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Level 1 | Level 2 | Level 3 | Estimated Fair Value |
| | (dollars in thousands) | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | $197,164 | $197,164 | $ — | $ — | $197,164 |
| Interest-bearing time deposits with financial institutions | 6,633 | 6,633 | — | — | 6,633 |
| Investments held-to-maturity | 18,291 | — | 18,082 | — | 18,082 |
| Investment securities available-for-sale | 787,429 | — | 787,429 | — | 787,429 |
| FHLB, FRB and other stock | 65,881 | N/A | N/A | N/A | N/A |
| Loans held for sale | 23,426 | — | 23,524 | — | 23,524 |
| Loans held for investment, net (1) | 6,167,288 | — | — | 6,269,366 | 6,269,366 |
| Derivative asset | 1,135 | — | 1,135 | — | $1,135 |
| Accrued interest receivable | 27,060 | 27,060 | — | — | 27,060 |
| | | | | | |
| Liabilities: | | | | | |
| Deposit accounts | 6,085,886 | 5,001,053 | 1,074,564 | — | 6,075,617 |
| FHLB advances | 490,148 | — | 489,823 | — | 489,823 |
| Other borrowings | 46,139 | — | 46,373 | — | 46,373 |
| Subordinated debentures | 105,123 | — | 115,159 | — | 115,159 |
| Derivative liability | 1,135 | — | 1,135 | — | 1,135 |
| Accrued interest payable | 2,131 | 2,131 | — | — | 2,131 |

(1) The estimated fair value of loans held for investment, net for December 31, 2017 is not based on an exit price assumption.

The following fair value hierarchy table presents information about the Company’s financial instruments measured at fair value on a recurring basis at the dates indicated:

| | June 30, 2018 Fair Value Measurement Using | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| | (dollars in thousands) | | | |
| Financial assets | | | | |
| Investment securities available-for-sale: | | | | |
| Agency | $ — | $41,077 | $ — | $41,077 |
| Corporate | — | 92,502 | — | 92,502 |
| Municipal bonds | — | 219,901 | — | 219,901 |
| Collateralized mortgage obligation | — | 29,158 | — | 29,158 |
| Mortgage-backed securities | — | 492,062 | — | 492,062 |
| Total securities available-for-sale | $ — | $874,700 | $ — | $874,700 |
| | | | | |
| Derivative assets | $ — | $3,272 | $ — | $3,272 |

| | | | | |
|---|---|---|---|---|
| Financial liabilities | | | | |
| Derivative liabilities | $— | $3,272 | $ — | $3,272 |

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| | December 31, 2017 Fair Value Measurement Using | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| | (dollars in thousands) | | | |
| Financial assets | | | | |
| Investment securities available-for-sale: | | | | |
| Agency | $— | $47,209 | $— | $47,209 |
| Corporate | — | 79,546 | — | 79,546 |
| Municipal bonds | — | 232,128 | — | 232,128 |
| Collateralized mortgage obligation | — | 33,781 | — | 33,781 |
| Mortgage-backed securities | — | 394,765 | — | 394,765 |
| Total securities available-for-sale | $— | $787,429 | $— | $787,429 |
| Derivative assets | $— | $1,135 | $— | $1,135 |
| Financial liabilities | | | | |
| Derivative liabilities | $— | $1,135 | $— | $1,135 |

The Company’s valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company’s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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Note 11 – Derivative Instruments

From time to time, the Company enters into interest rate swap agreements with certain borrowers to assist them in mitigating their interest rate risk exposure associated with the loans they have with the Company. At the same time, the Company enters into identical interest rate swap agreements with another financial institution to mitigate the Company's interest rate risk exposure associated with the swap agreements it enters into with its borrowers. The Company had swaps with matched terms with an aggregate notional amount of $57.7 million and a fair value of $3.3 million at June 30, 2018 compared with and aggregate notional amount of $58.6 million and a fair value of $1.1 million at December 31, 2017. The fair value of these agreements are determined through a third party valuation model used by the Company's counterparty bank, which uses observable market data such as cash LIBOR rates, prices of Eurodollar future contracts and market swap rates. The fair values of these swaps are recorded as components of other assets and other liabilities in the Company's condensed consolidated balance sheet. Changes in the fair value of these swaps, which occur due to changes in interest rates, are recorded in the Company's income statement as a component of noninterest income. Since the terms of the swap agreements between the Company and its borrowers have been matched with the terms of swap agreements with another financial institution, the adjustments for the change in their fair value offset each other in non-interest income.

Although changes in the fair value of swap agreements between the Company and borrowers and the Company and other financial institutions offset each other, changes in the credit risk of these counterparties may result in a difference in the fair value of these swap agreements. Offsetting swap agreements the Company has with other financial institutions are collateralized with cash, and swap agreements with borrowers are secured by the collateral arrangements for the underlying loans these borrowers have with the Company. During the six months ended June 30, 2018 and December 31, 2017, there were no losses recorded on swap agreements, attributable to the change in credit risk associated with a counterparty. All interest rate swap agreements entered into by the Company as of June 30, 2018 and December 31, 2017 are not designated as hedging instruments.

The following tables summarize the Company's derivative instruments, included in "other assets" and "other liabilities" in the consolidated statements of financial condition:

| | June 30, 2018 | | | |
|---|---|---|---|---|
| | Derivative Assets | | Derivative Liabilities | |
| | Notional | Fair Value | Notional | Fair Value |
| | (dollars in thousands) | | | |
| Derivative instruments not designated as hedging instruments: | | | | |
| Interest rate swap contracts | $57,710 | $3,272 | $57,710 | $3,272 |
| Total derivative instruments | $57,710 | $3,272 | $57,710 | $3,272 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Derivative Assets | | Derivative Liabilities | |
| | Notional | Fair Value | Notional | Fair Value |
| | (dollars in thousands) | | | |
| Derivative instruments not designated as hedging instruments: | | | | |
| Interest rate swap contracts | $58,599 | $1,135 | $58,599 | $1,135 |
| Total derivative instruments | $58,599 | $1,135 | $58,599 | $1,135 |

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Note 12 – Balance Sheet Offsetting

Derivative financial instruments may be eligible for offset in the consolidated balance sheets, such as those subject to enforceable master netting arrangements or a similar agreement. Under these agreements, the Company has the right to net settle multiple contracts with the same counterparty. The Company offers an interest rate swap product to qualified customers, which are then paired with derivative contracts the Company enters into with a counterparty bank. While derivative contracts entered into with counterparty banks may be subject to enforceable master netting agreements, derivative contracts with customers may not be subject to enforceable master netting arrangements. Financial instruments that are eligible for offset in the consolidated statements of financial condition as of June 30, 2018 are presented in the table below:

| | | | | Gross Amounts Not Offset in the Consolidated Balance Sheets | | |
|---|---|---|---|---|---|---|
| | Gross Amounts Recognized in the Consolidated Balance Sheets | Gross Amounts Offset in the Consolidated Balance Sheets | Net Amounts Presented in the Consolidated Balance Sheets | Financial Instruments | Cash Collateral (1) | Net Amount |
| | (dollars in thousands) | | | | | |
| June 30, 2018 | | | | | | |
| Financial assets: | | | | | | |
| Derivatives not designated as hedging instruments | $3,272 | $ — | $ 3,272 | $ — | $ — | $ 3,272 |
| Total | $3,272 | $ — | $ 3,272 | $ — | $ — | $ 3,272 |
| Financial liabilities: | | | | | | |
| Derivatives not designated as hedging instruments | $3,272 | $ — | $ 3,272 | $ — | $ — | $ 3,272 |
| Total | $3,272 | $ — | $ 3,272 | $ — | $ — | $ 3,272 |

(1) Represents cash collateral held with counterparty bank.

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Financial instruments that are eligible for offset in the consolidated statements of financial condition as of December 31, 2017 are presented in the table below:

| | Gross Amounts Recognized in the Consolidated Balance Sheets | Gross Amounts Offset in the Consolidated Balance Sheets | Net Amounts Presented in the Consolidated Balance Sheets | Gross Amounts Not Offset in the Consolidated Balance Sheets | | |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Cash Collateral (1) | Net Amount |
| | (dollars in thousands) | | | | | |
| December 31, 2017 | | | | | | |
| Financial assets: | | | | | | |
| Derivatives not designated as hedging instruments | $1,833 | $ (698) | $ 1,135 | $ — | $ — | $ 1,135 |
| Total | $1,833 | $ (698) | $ 1,135 | $ — | $ — | $ 1,135 |
| | | | | | | |
| Financial liabilities: | | | | | | |
| Derivatives not designated as hedging instruments | $1,135 | $ — | $ 1,135 | $ — | $ — | $ 1,135 |
| Total | $1,135 | $ — | $ 1,135 | $ — | $ — | $ 1,135 |

(1) Represents cash collateral held with counterparty bank.

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Note 13 – Revenue Recognition

The Company earns revenue from a variety of sources. The Company's principal source of revenue is interest income on loans, investment securities and other interest earning assets, while the remainder of the Company's revenue is earned from a variety of fees, service charges, gains and losses, and other income, all of which are classified as noninterest income. Revenue from interest on loans and investment securities is accounted on an accrual basis using the interest method, while revenue from other sources is accounted for under other applicable U.S. GAAP as well as ASC 606 - Revenue from Contracts with Customers. Revenue streams within the scope of and accounted for under ASC 606 include: service charges and fees on deposit accounts, debit card interchange fees, fees from other services the Company provides its customers, and gains and losses from the sale of other real estate owned and property, premises and equipment. ASC 606 requires revenue to be recognized when the Company satisfies the related performance obligations by transferring to the customer a good or service. The recognition of revenue under ASC 606 requires the Company to first identify the contract with the customer, identify the associated performance obligations, determine the transaction price, allocate the transaction price to the performance obligations, and finally recognize revenue when the performance obligations have been satisfied and the good or service has been transferred. The majority of the Company's contracts with customers associated with revenue streams that are within the scope of ASC 606 are considered short-term in nature and can be canceled at any time by the customer or the Company without penalty, such as a deposit account agreement. These revenue streams are included in non-interest income.

The following tables provide a summary of the Company's revenue streams, including those that are within the scope of ASC 606 and those that are accounted for under other applicable U.S. GAAP:

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2018 | | March 31, 2018 | | June 30, 2017 | |
| | Within Scope (1) | Out of Scope (2) | Within Scope (1) | Out of Scope (2) | Within Scope (1) | Out of Scope (2) |
| | (dollars in thousands) | | | | | |
| Interest income: | | | | | | |
| Loans | $— | $85,625 | $— | $84,173 | $— | $63,554 |
| Investment securities and other interest-earning assets | — | 7,074 | — | 6,654 | — | 5,179 |
| Total interest income | — | 92,699 | — | 90,827 | — | 68,733 |
| Noninterest income: | | | | | | |
| Loan servicing fees | — | 292 | — | 345 | — | 143 |
| Service charges on deposit accounts | 1,057 | — | 1,150 | — | 866 | — |
| Other service fee income | 169 | — | 146 | — | 495 | — |
| Debit card interchange income | 1,090 | — | 1,036 | — | 679 | — |
| Earnings on bank-owned life insurance | — | 617 | — | 611 | — | 689 |
| Net gain from sales of loans | — | 3,843 | — | 2,958 | — | 2,887 |
| Net gain from sales of investment securities | — | 330 | — | 6 | — | 2,093 |
| Other income | 297 | 456 | 237 | 1,177 | 90 | 817 |
| Total noninterest income | 2,613 | 5,538 | 2,569 | 5,097 | 2,130 | 6,629 |
| Total revenues | $2,613 | $98,237 | $2,569 | $95,924 | $2,130 | $75,362 |

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(1) Revenues from contracts with customers accounted for under ASC 606.
(2) Revenues not within the scope of ASC 606 and accounted for under other applicable U.S. GAAP requirements.

| | Six Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2018 | | June 30, 2017 | |
| | Within Scope (1) | Out of Scope (2) | Within Scope (1) | Out of Scope (2) |
| | (dollars in thousands) | | | |
| Interest income: | | | | |
| Loans | $— | $169,798 | $— | $105,990 |
| Investment securities and other interest-earning assets | — | 13,728 | — | 8,170 |
| Total interest income | — | 183,526 | — | 114,160 |
| Noninterest income: | | | | |
| Loan servicing fees | — | 637 | — | 365 |
| Service charges on deposit accounts | 2,207 | — | 1,207 | — |
| Other service fee income | 315 | — | 874 | — |
| Debit card interchange income | 2,126 | — | 746 | — |
| Earnings on bank-owned life insurance | — | 1,228 | — | 1,025 |
| Net gain from sales of loans | — | 6,801 | — | 5,698 |
| Net gain from sales of investment securities | — | 336 | — | 2,093 |
| Other income | 530 | 1,637 | 139 | 1,295 |
| Total noninterest income | 5,178 | 10,639 | 2,966 | 10,476 |
| Total revenues | $5,178 | $194,165 | $2,966 | $124,636 |

(1) Revenues from contracts with customers accounted for under ASC 606.
(2) Revenues not within the scope of ASC 606 and accounted for under other applicable U.S. GAAP requirements.

The following provides information concerning the major components of the Company’s revenue:

Interest Income

Interest income is comprised of interest on loans, investment securities and other interest-earning assets. Interest is recognized using the interest method, which reflects the contractual yield on loans and coupon yield for investment securities. These yields are adjusted for purchase discounts and premiums and net deferred loan origination fees for newly originated loans.

Loan Servicing Fees

Loan servicing fees generally consist of fees related to servicing of loans for others, as well as the net impact of related serving asset amortization. ASC 606 stipulates that income streams generated through the transfer and servicing of financial instruments shall be accounted for under ASC 860 - Transfers and Servicing and is therefore excluded from the scope of ASC 606.

Service Charges on Deposit Accounts and Other Service Fee Income

Service charges on deposit accounts and other service fee income consists of periodic service charges on deposit accounts and transaction based fees such as those related to overdrafts, ATM charges and wire transfer fees. The majority of these revenues are accounted for under ASC 606. Performance obligations for periodic service charges on

deposit accounts are typically short-term in nature and are generally satisfied on a monthly basis, while

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performance obligations for other transaction based fees are typically satisfied at a point in time (which may consist of only a few moments to perform the service or transaction) with no further obligations on behalf of the Company to the customer. Periodic service charges are generally collected monthly directly from the customer's deposit account, and at the end of a statement cycle, while transaction based service charges are typically collected at the time of or soon after the service is performed.

Debit Card Interchange Income

Debit card interchange fee income consists of transaction processing fees associated with customer debit card transactions processed through a payment network and are accounted for under ASC 606. These fees are earned each time a request for payment is originated by a customer debit cardholder at a merchant. In these transactions the Company transfers funds from the debit cardholder’s account to a merchant through a payment network at the request of the debit cardholder by way of the debit card transaction. The related performance obligations are generally satisfied when the transfer of funds is complete, which is generally a point in time when the debit card transaction is processed. Debit card interchange fees are typically received and recorded as revenue on a daily basis.

Earnings on Bank-Owned Life Insurance

Earnings on bank-owned life insurance relates to the periodic increase in the cash surrender value of bank-owned life insurance policies on certain key employees of the Company for which the Company is the owner and beneficiary of the related policies. This revenue stream is excluded from the scope of ASC 606, and is accounted for under other applicable U.S. GAAP provisions (ASC 325-30).

Gains and (Losses) from Sales of Loans and Investment Securities

ASC 606 stipulates that gains and (losses) from the periodic sale of loans and investment securities are excluded from ASC 606 and are accounted for under other applicable U.S. GAAP provisions.

Other Income

Other income generally consists of recoveries on acquired loans, which were fully charged off and had no book value prior to their acquisition. This revenue stream is excluded from the scope of ASC 606 and is accounted for under other applicable U.S. GAAP provisions. Other income also consists of other miscellaneous fees, which are accounted for under ASC 606, however, much like service charges on deposit accounts, these fees have performance obligations that are very short-term in nature and are typically satisfied at a point in time. Revenue is typically recorded at the time these fees are collected which is generally upon the completion the related transaction or service provided.

Other revenue streams that may be applicable to the Company include gains and losses from the sale of non-financial assets such as other real estate owned and property premises and equipment. The Company accounts for these revenue streams in accordance with ASC 610-20, which requires the Company to look to guidance in ASC 606 in the application of certain measurement and recognition concepts. The Company records gains and losses on the sale of non-financial assets when control of the asset has been surrendered to the buyer, which generally occurs at a specific point in time.

Practical Expedient

The Company also employs a practical expedient with respect to contract acquisition costs, which are generally capitalized and amortized into expense. These costs relate to expenses incurred directly attributable to the efforts to obtain a contract. The practical expedient allows the Company to immediately recognize contract acquisition costs in

current period earnings when these costs would have been amortized over a period of one year or less.

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At June 30, 2018 the Company did not have any material contract assets or liabilities in its consolidated financial statements related to revenue streams within the scope of ASC 606, and there were no material changes in those balances during the reporting period.

Note 14 – Subsequent Events

Acquisition of Grandpoint Capital, Inc.

On July 2, 2018, the Company announced that it had completed the acquisition, effective as of July 1, 2018, of Grandpoint Capital, Inc. ("Grandpoint"), the holding company of Grandpoint Bank, a California-chartered bank corporation headquartered in Los Angeles, California, with 14 regional offices in Southern California, Arizona and Vancouver, Washington.

Pursuant to the terms of the merger agreement, each outstanding share of Grandpoint common stock was converted into the right to receive 0.4750 shares of Corporation's common stock. The value of the total transaction consideration was approximately $629 million, which included approximately $28.0 million in aggregate cash consideration payable to holders of unexercised options exercisable for shares of Grandpoint common stock, and the issuance of 15,758,089 shares of the Corporation's Common Stock, which had a value of $38.15 per share, which was the closing price of the Corporation's common stock on June 29, 2018, the last trading day prior to the consummation of the acquisition.

The Company expects to record goodwill arising from the acquisition consisting largely of synergies and cost savings resulting from combining the operations of the companies. The amount of goodwill is not expected to be deductible for tax purposes. The fair value of intangible assets and acquired assets and liabilities will be determined as of the acquisition date but are still being evaluated as of the date of these financial statements.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains information and statements that are considered “forward looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections and statements of our beliefs concerning future events, business plans, objectives, expected operating results and the assumptions upon which those statements are based. Forward-looking statements include without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and are typically identified with words such as “may,” “could,” “should,” “will,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” or words or phrases of similar meaning. We ca the forward-looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed, or implied by the forward-looking statements.

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The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

- The strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;
- The effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the “Federal Reserve”);
- Inflation/deflation, interest rate, market and monetary fluctuations;
- The effect of acquisitions we may make, such as our recent acquisition of Grandpoint, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions, and/or the failure to effectively integrate an acquisition target into our operations;
- The timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
- The impact of changes in financial services policies, laws and regulations, including those concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies;
- Technological and social media changes;
- Changes in the level of our nonperforming assets and charge-offs;
- The effect of changes in accounting policies and practices, as may be adopted from time-to-time by bank regulatory agencies, the SEC, the Public Company Accounting Oversight Board, the FASB or other accounting standards setters;
- Possible OTTI of securities held by us;
- The impact of current governmental efforts to restructure the U.S. financial regulatory system;
- Changes in consumer spending, borrowing and savings habits;
- The effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
- Ability to attract deposits and other sources of liquidity;
- Changes in the financial performance and/or condition of our borrowers;
- Changes in the competitive environment among financial and bank holding companies and other financial service providers;
- Geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;
- Unanticipated regulatory or judicial proceedings; and
- Our ability to manage the risks involved in the foregoing.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Quarterly Report on Form 10-Q and other reports and registration statements filed by us with the SEC. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We will not update the forward-looking information and statements to reflect actual results or changes in the factors affecting the forward-looking information and statements. For information on the factors that could cause actual results to differ from the expectations stated in the forward-looking statements, see “Risk Factors” under Part I, Item 1A of our 2017 Annual Report.

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Forward-looking information and statements should not be viewed as predictions, and should not be the primary basis upon which investors evaluate us. Any investor in our common stock should consider all risks and uncertainties disclosed in our filings with the SEC, all of which are accessible on the SEC’s website at http://www.sec.gov.

GENERAL

This discussion should be read in conjunction with our Management Discussion and Analysis of Financial Condition and Results of Operations included in our 2017 Annual Report, plus the unaudited consolidated financial statements and the notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q. The results for the three and six months ended June 30, 2018 are not necessarily indicative of the results expected for the year ending December 31, 2018.

The Corporation is a California-based bank holding company incorporated in the state of Delaware and registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (“BHCA”). Our wholly owned subsidiary, Pacific Premier Bank, is a California state-chartered commercial bank. As a bank holding company, the Corporation is subject to regulation and supervision by the Federal Reserve. We are required to file with the Federal Reserve quarterly and annual reports and such additional information as the Federal Reserve may require pursuant to the BHCA. The Federal Reserve may conduct examinations of bank holding companies, such as the Corporation, and its subsidiaries. The Corporation is also a bank holding company within the meaning of the California Financial Code. As such, the Corporation and its subsidiaries are subject to examination by, and may be required to file reports with, the California Department of Business Oversight-Division of Financial Institutions (“DBO”).

A bank holding company, such as the Corporation, is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such a policy. The Federal Reserve, under the BHCA, has the authority to require a bank holding company to terminate any activity or to relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve’s determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

As a California state-chartered commercial bank which is a member of the Federal Reserve, the Bank is subject to supervision, periodic examination and regulation by the DBO and the Federal Reserve. The Bank’s deposits are insured by the FDIC through the Deposit Insurance Fund. In general terms, insurance coverage is up to $250,000 per depositor for all deposit accounts. As a result of this deposit insurance function, the FDIC also has certain supervisory authority and powers over the Bank. If, as a result of an examination of the Bank, the regulators should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Bank’s operations are unsatisfactory or that the Bank or our management is violating or has violated any law or regulation, various remedies are available to the regulators. Such remedies include the power to enjoin unsafe or unsound practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict growth, to assess civil monetary penalties, to remove officers and directors and ultimately to request the FDIC to terminate the Bank’s deposit insurance. As a California-chartered commercial bank, the Bank is also subject to certain provisions of California law.

We provide banking services within our targeted markets in California to businesses, including the owners and employees of those businesses, professionals, real estate investors and non-profit organizations, as well as consumers in the communities we serve. Additionally, through our HOA Banking and Lending and Franchise Capital units we can provide customized cash management, electronic banking services and credit facilities to HOAs, HOA management companies and quick service restaurant ("QSR") franchise owners nationwide. Our corporate headquarters are located in Irvine, California. At June 30, 2018, the Bank operated 33 full-service depository branches

located in California in the counties of Orange, Los Angeles, Riverside, San Bernardino, San Diego, San Luis Obispo and Santa Barbara, California as well as Clark County, Nevada. As a result of the

acquisition of Grandpoint, which was effective as of July 1, 2018, the Bank now operates 47 full service depository branches, in the above locations as well as in Pima and Maricopa Counties in Arizona and Clark County, Washington. Through our branches and our web site at www.ppbi.com, we offer a broad array of deposit products and services for both business and consumer customers, including checking, money market and savings accounts, cash management services, electronic banking, and on-line bill payment. We also offer a variety of loan products, including commercial business loans, lines of credit, commercial real estate loans, SBA loans, residential home loans, and home equity loans. The Bank funds it's lending and investment activities with retail and commercial deposits obtained through its branches, advances from the FHLB, lines of credit, and wholesale and brokered certificates of deposits.

Our principal source of income is the net spread between interest earned on loans and investments and the interest costs associated with deposits and borrowings used to finance the loan and investment portfolios. Additionally, the Bank generates fee income from loan and investment sales and various products and services offered to both depository and loan customers.

CRITICAL ACCOUNTING POLICIES

Management has established various accounting policies that govern the application of U.S. GAAP in the preparation of our financial statements. Our significant accounting policies are described in the Notes to the Consolidated Financial Statements in our 2017 Annual Report. There have been no significant changes to our Critical Accounting Policies as described in our 2017 Annual Report.

Certain accounting policies require management to make estimates and assumptions, which have a material impact on the carrying value of certain assets and liabilities; management considers these to be critical accounting policies. The estimates and assumptions management uses are based on historical experience and other factors, which management believes to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at balance sheet dates and our results of operations for future reporting periods.

We consider the ALLL to be a critical accounting policy that requires judicious estimates and assumptions in the preparation of our financial statements that is particularly susceptible to significant change. For further information, see “Allowances for Loan Losses” discussed in Note 7 to the Consolidated Financial Statements in this Quarterly Report on Form 10-Q and Note 5 to the Consolidated Financial Statements in our 2017 Annual Report.

PLAZA ACQUISITION

Effective November 1, 2017, the Company acquired Plaza, and its wholly-owned bank subsidiary, Plaza Bank, a California-chartered bank headquartered in Irvine, California, pursuant to the terms of a definitive agreement entered into by the Corporation and Plaza on August 8, 2017. As a result of the Plaza acquisition, the Bank acquired and recorded at the acquisition date assets with a fair value of approximately $1.3 billion, including:

- $1.1 billion of gross loans;
- $123 million in goodwill;
- $150 million of cash and cash equivalents;
- $18.9 million of other types of assets;
- $7.2 million in fixed assets; and
- $10.8 million of a core deposit intangible.

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Also as a result of the Plaza acquisition, the Company recorded $251 million of equity in connection with the Corporation's stock issued to Plaza shareholders as part of the acquisition consideration and assumed at acquisition date liabilities with a fair value of approximately $1.1 billion, including:

- $1.1 billion in deposit transaction accounts; and
- $8.5 million other liabilities.

The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB ASC Topic 820: Fair Value Measurements and Disclosures. Such fair values are preliminary estimates and are subject to adjustment for up to one year after the merger date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier.

The integration and system conversion of Plaza was completed in May 2018.

HEOP ACQUISITION

Effective April 1, 2017, the Company acquired HEOP, and its wholly-owned bank subsidiary, Heritage Oaks Bank, a California-chartered bank headquartered in Paso Robles, California, pursuant to the terms of a definitive agreement entered into by the Corporation and HEOP on December 12, 2016. As a result of the HEOP acquisition, the Bank acquired and recorded at the acquisition date assets with a fair value of approximately $2.0 billion, including:

- $1.4 billion of gross loans;
- $443 million in investment securities;
- $270 million in goodwill;
- $78.7 million of cash and cash equivalents;
- $55.2 million of other types of assets;
- $34.9 million in fixed assets; and
- $28.1 million of a core deposit intangible.

Also as a result of the HEOP acquisition, the Company recorded $465 million of equity in connection with the Corporation's stock issued to HEOP shareholders as part of the acquisition consideration and assumed at acquisition date liabilities with a fair value of approximately $1.8 billion, including:

- $1.7 billion in deposit accounts; and
- $147 million in other liabilities.

The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB ASC Topic 820: Fair Value Measurements and Disclosures. Such fair values are preliminary estimates and are subject to adjustment for up to one year after the merger date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier. During the quarter ended June 30, 2018, the Company finalized its fair values with this acquisition.

The integration and system conversion of HEOP was completed in July 2017.

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NON-U.S. GAAP MEASURES

For periods presented below, return on average tangible common equity is a non-U.S. GAAP financial measure derived from U.S. GAAP-based amounts. We calculate these figures by excluding core deposit intangible ("CDI") amortization expense and exclude the average CDI and average goodwill from the average stockholders’ equity during the period. Management believes that the exclusion of such items from these financial measures provides useful information to an understanding of the operating results of our core business. However, these non-U.S. GAAP financial measures are supplemental and are not a substitute for an analysis based on U.S. GAAP measures. As other companies may use different calculations for these adjusted measures, this presentation may not be comparable to other similarly titled adjusted measures reported by other companies.

| | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | June 30, 2018 | March 31, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| | (dollars in thousands) | | | | |
| Net income | $27,303 | $28,002 | $14,176 | $55,305 | $23,697 |
| Plus CDI amortization expense | 1,996 | 2,274 | 1,761 | 4,270 | 2,272 |
| Less CDI amortization expense tax adjustment (1) | 542 | 548 | 610 | 1,095 | 770 |
| Net income for average tangible common equity | $28,757 | $29,728 | $15,327 | $58,480 | $25,199 |
| | | | | | |
| Average stockholders’ equity | $1,279,932 | $1,255,629 | $948,200 | $1,267,848 | $710,138 |
| Less average CDI | 39,766 | 42,220 | 36,445 | 40,986 | 22,934 |
| Less average goodwill | 494,070 | 493,357 | 370,564 | 493,715 | 237,268 |
| Average tangible common equity | $746,096 | $720,052 | $541,191 | $733,147 | $449,936 |
| Return on average tangible common equity (2) | 15.42 % | 16.51 % | 11.33 % | 15.95 % | 11.20 % |

(1) CDI amortization expense adjusted by quarterly effective tax rate.
(2) Ratio is annualized.

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## RESULTS OF OPERATIONS

In the second quarter of 2018, we reported net income of $27.3 million, or $0.58 per diluted share. This compares with net income of $28.0 million, or $0.60 per diluted share, for the first quarter of 2018. The decrease in net income was primarily driven by an increase in income tax of $1.3 million, and noninterest expense of $268,000. These expense increases were partially offset by a decrease in the provision for credit losses of $492,000, as well as an increase in noninterest income of $485,000. Net interest income was essentially unchanged from the first quarter of 2018 as interest income and interest expense increased $1.9 million and $2.0 million, respectively.

Net income of $27.3 million, or $0.58 per diluted share, for the second quarter of 2018 compares to net income for the second quarter of 2017 of $14.2 million, or $0.35 per diluted share. The increase in net income of $13.1 million was primarily due to the $17.8 million increase in net interest income resulting from average interest-earning asset growth of $1.6 billion. The increase in average interest-earning assets was primarily from the acquisition of Plaza and organic loan growth since the end of the second quarter of 2017. The increase was partially offset by a $2.7 million increase in income tax and a $1.6 million increase in noninterest expense. The increase in noninterest expense included increases of $7.7 million in compensation and benefits expense, $1.3 million in premises and occupancy expense, $638,000 in legal, audit and professional expense, $633,000 of deposit expense, $346,000 in marketing expenses and $308,000 data processing expense, which partially offset by a decrease of $9.2 million in merger-related expense.

For the three months ended June 30, 2018, the Company's return on average assets was 1.35% and return on average tangible common equity was 15.42%. For the three months ended March 31, 2018, the return on average assets was 1.39% and the return on average tangible common equity was 16.51%. For the three months ended June 30, 2017, the return on average assets was 0.89% and the return on average tangible common equity was 11.33%.

For the six months ended June 30, 2018, the Company recorded net income of $55.3 million, or $1.18 per diluted share. This compares with net income of $23.7 million or $0.69 per diluted share for the six months ended June 30, 2017. The increase in net income of $31.6 million was mostly due to the $57.4 million increase in net interest income resulting from earning asset growth, primarily from the acquisitions of Plaza and HEOP and organic loan growth, partially offset by growth in non-interest expense of $21.4 million, including increases of $21.6 million in compensation and benefits expenses, $3.6 million in premises and occupancy expense, $2.0 million in CDI amortization and $1.8 million in data processing, which partially offset by a decrease of $13.2 million in merger-related expense. Prior period comparisons for the year-to-date results are impacted by the acquisitions of Plaza in the fourth quarter of 2017 and the acquisition of HEOP in the second quarter of 2017.

For the six months ended June 30, 2018, the Company's return on average assets was 1.37% and return on average tangible common equity was 15.95%, compared with a return on average assets of 0.91% and a return on average tangible common equity of 11.20% for the six months ended June 30, 2017.

### Net Interest Income

Our primary source of revenue is net interest income, which is the difference between the interest earned on loans, investment securities, and interest earning balances with financial institutions ("interest-earning assets") and the interest paid on deposits and borrowings ("interest-bearing liabilities"). Net interest margin is net interest income expressed as a percentage of average interest earning assets. Net interest income is affected by changes in both interest rates and the volume of interest-earning assets and interest-bearing liabilities.

Net interest income totaled $81.2 million in the second quarter of 2018, essentially unchanged from the first quarter of 2018. Compared to the prior quarter, net interest income was positively impacted by higher yields and average asset balances on our loans and investments, higher prepayments and other loan related fees, and one more day of interest in

the second quarter of 2018. These increases were offset by lower accretion income and higher deposit and borrowing costs.

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Net interest margin for the second quarter was 4.41%, compared with 4.50% in the prior quarter. The decrease was principally driven by lower accretion income of $1.9 million, compared to $3.7 million in the first quarter of 2018, partially offset by higher prepayment and other loan related fees of approximately $1.2 million. Excluding the impact of accretion, our core net interest margin expanded to 4.29%, compared to 4.26% in the prior quarter.

Net interest income for the second quarter of 2018 increased $17.8 million, or 28%, compared to the second quarter of 2017. The increase was primarily related to an increase in average interest-earning assets of $1.6 billion, which resulted primarily from our organic loan growth since the end of the second quarter of 2017 and our acquisition of Plaza in the fourth quarter of 2017.

For the first six months ended 2018, net interest income increased $57.4 million, or 55%, compared to the first six months ended 2017. The increase was related to an increase in average interest-earning assets of $2.5 billion, which resulted primarily from our acquisitions of Plaza in the fourth quarter of 2017 and HEOP in the second quarter of 2017 and organic loan growth since the end of the first six months ended 2017.

The following tables present for the periods indicated the average dollar amounts from selected balance sheet categories calculated from daily average balances and the total dollar amount, including adjustments to yields and costs, of:

- Interest income earned from average interest-earning assets and the resultant yields; and
- Interest expense incurred from average interest-bearing liabilities and resultant costs, expressed as rates.

The tables below also set forth our net interest income, net interest rate spread and net interest rate margin for the periods indicated. The net interest rate margin reflects the relative level of interest-earning assets to interest-bearing liabilities and equals our net interest rate spread divided by average interest-earning assets for the periods indicated.

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| | Average Balance Sheet<br>Three Months Ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | June 30, 2018 | | | March 31, 2018 | | | June 30, 2017 | | |
| | Average Balance | Interest | Average Yield/Cost | Average Balance | Interest | Average Yield/Cost | Average Balance | Interest | Average Yield/Cost |
| Assets | (dollars in thousands) | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Cash and cash equivalents | $146,279 | $ 277 | 0.76 % | $167,236 | $ 313 | 0.76 % | $133,127 | $ 160 | 0.48 % |
| Investment securities | 980,334 | 6,797 | 2.77 | 924,687 | 6,341 | 2.74 | 829,380 | 5,019 | 2.42 |
| Loans receivable, net | 6,253,987 | 85,625 | 5.49 | 6,237,968 | 84,173 | 5.47 | 4,815,455 | 63,554 | 5.29 |
| Total interest-earning assets | 7,380,600 | 92,699 | 5.04 | 7,329,891 | 90,827 | 5.03 | 5,777,962 | 68,733 | 4.77 |
| Noninterest-earning assets | 726,922 | | | 715,408 | | | 592,343 | | |
| Total assets | $8,107,522 | | | $8,045,299 | | | $6,370,305 | | |
| Liabilities and Equity | | | | | | | | | |
| Interest-bearing deposits: | | | | | | | | | |
| Interest checking | $349,721 | $ 117 | 0.13 | $348,110 | $ 114 | 0.13 | $329,450 | $ 90 | 0.11 |
| Money market | 2,185,310 | 3,943 | 0.72 | 2,189,912 | 3,159 | 0.59 | 1,779,013 | 1,582 | 0.36 |
| Savings | 219,035 | 83 | 0.15 | 223,992 | 79 | 0.14 | 218,888 | 68 | 0.12 |
| Retail certificates of deposit | 784,911 | 2,290 | 1.17 | 713,225 | 1,388 | 0.79 | 568,380 | 911 | 0.64 |
| Wholesale/brokered certificates of deposit | 349,576 | 1,323 | 1.52 | 377,614 | 1,174 | 1.26 | 212,111 | 430 | 0.81 |
| Total interest-bearing deposits | 3,888,553 | 7,756 | 0.80 | 3,852,853 | 5,914 | 0.62 | 3,107,842 | 3,081 | 0.40 |
| FHLB advances and other borrowings | 455,488 | 2,125 | 1.87 | 508,142 | 2,023 | 1.61 | 385,088 | 1,175 | 1.22 |
| Subordinated debentures | 105,218 | 1,647 | 6.26 | 105,153 | 1,609 | 6.12 | 79,757 | 1,139 | 5.71 |
| Total borrowings | 560,706 | 3,772 | 2.70 | 613,295 | 3,632 | 2.40 | 464,845 | 2,314 | 2.00 |
| Total interest-bearing liabilities | 4,449,259 | 11,528 | 1.04 | 4,466,148 | 9,546 | 0.87 | 3,572,687 | 5,395 | 0.61 |
| Noninterest-bearing deposits | 2,310,714 | | | 2,262,895 | | | 1,802,752 | | |
| Other liabilities | 67,617 | | | 60,627 | | | 46,666 | | |